



EMTHANJENI LOCAL MUNICIPALITY

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2015**

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

INDEX

| Description | Page no. |
|--|----------|
| General Information | 3 |
| Approval of the Annual Financial Statements | 4 |
| Report of the Chief Financial Officer | 5 |
| Statement of Financial Position | 15 |
| Statement of Financial Performance | 16 |
| Statement of Changes in Net Assets | 17 |
| Cash Flow Statement | 18 |
| Statement of Comparison of Budget and Actual Amounts | 19 |
| Accounting Policies | 30 |
| Notes to the Financial Statements | 49 |
| The following appendices do not form part of the Annual Financial Statements and are unaudited: | |
| Appendix A | 98 |
| Appendix B | 99 |
| Appendix C | 100 |
| Appendix D | 101 |
| Appendix E | 102 |
| Appendix F | 107 |
| Appendix G | 108 |

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

GENERAL INFORMATION

Members of the Council:

| | |
|---------------|---------|
| ST Sthonga | Mayor |
| MM Freddie | Speaker |
| WJ du Plessis | Member |
| AF Jaftha | Member |
| J Jood | Member |
| VG Jonas | Member |
| MC Kivedo | Member |
| M Malherbe | Member |
| GL Nkumbi | Member |
| GL Nyl | Member |
| HJ Rust | Member |
| B Swanepoel | Member |
| NS Thomas | Member |
| WA Witbooi | Member |

Municipal Manager: I Visser

Chief Financial Officer: MF Manuel

Grading of Local Authority: Grade 2

Auditors: Auditor-General

Bankers: ABSA Bank Limited

Registered Office: 45 Voortrekker Street
De Aar
7000

Physical address: 45 Voortrekker Street
De Aar
7000

Postal address: PO Box 42
De Aar
7000

Telephone number: (053) 632 9100

Fax number: (053) 631 0105

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 97, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Municipal Manager: Visser

31 August 2015

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Emthanjeni Local Municipality at 30 June 2015.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2014/2015 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2015 indicates an increase in Net Assets, an increase in Non-current Liabilities and an increase in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increases in Retirement Benefit Liabilities and Long-service Benefits. The increase in Current Liabilities is primarily as a result of the increase in Payables as well as Unspent Conditional Grants.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the Municipality.

2.1 Financial Statement Ratios:

| INDICATOR | 2015 | 2014 |
|---|--------------|--------------|
| Surplus / (Deficit) before Appropriations | (43,470,691) | (66,207,989) |
| Surplus / (Deficit) at the end of the Year | 916,891,138 | 960,361,829 |
| Expenditure Categories as a percentage of Total Expenses: | | |
| Employee Related Costs | 26.30% | 23.05% |
| Remuneration of Councillors | 1.62% | 1.60% |
| Collection Costs | 0.11% | 0.00% |
| Depreciation and Amortisation | 24.45% | 26.21% |
| Impairment Losses | 12.15% | 16.62% |
| Repairs and Maintenance | 4.41% | 4.47% |
| Interest Paid | 0.53% | 0.62% |
| Bulk Purchases | 18.50% | 16.75% |
| Contracted Services | 3.05% | 2.78% |
| Grants and Subsidies Paid | 0.09% | 0.29% |
| General Expenses | 8.49% | 7.57% |
| Loss on Disposal of Property, Plant and Equipment | 0.29% | 0.00% |
| Inventory Written-off | 0.00% | 0.03% |
| Loss on Sale of Land | 0.00% | 0.03% |
| Current Ratio: | | |
| Trade Creditors Days | 8 | 5 |
| Debtors from Exchange Transactions Days | 119 | 121 |

The ratio for Debtors Days, calculated on net Debtors, remained consistent with that of the previous financial year, due to the provision for impairment made for the year under review.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

2. KEY FINANCIAL INDICATORS (Continue)

2.2 Performance Indicators:

| INDICATOR | 2015 | 2014 |
|--|----------|----------|
| Financial Position | | |
| Debtors Management: | | |
| Outstanding Debtors to Revenue | 27.96% | 26.30% |
| Outstanding Service Debtors to Revenue | 44.28% | 39.21% |
| Liquidity Management: | | |
| Liquidity Ratio | 0.28 | 0.28 |
| Liability Management: | | |
| Capital Cost as percentage of Own Revenue | 0.85% | 1.19% |
| Borrowed Funding as percentage of Own Capital Expenditure | -767.73% | -121.47% |
| Borrowing as percentage of Total Capital Assets | 0.27% | 0.35% |
| Safety of Capital: | | |
| Gearing | 0.26% | 0.34% |
| Financial Viability: | | |
| Debt Coverage | 98.09 | - |
| Cost Coverage | 0.06 | 0.06 |
| Financial Performance | | |
| Expenditure Management: | | |
| Creditors to Cash and Investments | 155.84% | 129.53% |
| Capital Expenditure on Infrastructure to Total Capital Expenditure | 0.00% | 0.00% |

A detailed ratio analysis, together with explanations, is included in Appendix "H".

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

The services offered by Emthanjeni Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

3. OPERATING RESULTS (Continue)

The overall operating results for the year ended 30 June 2015 are as follows:

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|------------------------------------|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income: | | | | | |
| Opening surplus / (deficit) | 958,109,036 | 1,020,534,150 | (6.12)% | 963,379,000 | (0.55)% |
| Operating income for the year | 210,813,156 | 193,688,171 | 8.84% | 202,600,000 | 4.05% |
| | 1,168,922,192 | 1,214,222,321 | | 1,165,979,000 | |
| Expenditure: | | | | | |
| Operating expenditure for the year | 254,283,847 | 259,896,161 | (2.16)% | 202,004,000 | 25.88% |
| Sundry transfers | - | (3,782,875) | (100.00)% | - | 0.00% |
| Closing surplus / (deficit) | 914,638,345 | 958,109,036 | (4.54)% | 963,975,000 | (5.12)% |
| | 1,168,922,192 | 1,214,222,321 | | 1,165,979,000 | |
| | | | | | |

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the Municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|--|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income | 79,585,240 | 76,609,405 | 3.88% | 65,950,000 | 20.68% |
| Expenditure | (116,057,588) | (111,019,206) | 4.54% | (93,060,000) | 24.71% |
| Surplus / (Deficit) | (36,472,349) | (34,409,801) | 5.99% | (27,110,000) | 34.53% |
| Surplus / (Deficit) as % of total income | (45.83)% | (44.92)% | | (41.11)% | |

Variance from 2015 budget:

The Municipality budgeted that more revenue will be generated through other (other than service charge) revenue. This did however not realise, resulting in the significant variance.

3.2 Housing Services:

Housing Services are services rendered by the Municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|--|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income | 677,719 | 1,030,963 | (34.26)% | 36,000 | 1782.55% |
| Expenditure | (4,452,101) | (4,630,122) | (3.84)% | (2,109,000) | 111.10% |
| Surplus / (Deficit) | (3,774,382) | (3,599,159) | 4.87% | (2,073,000) | 82.07% |
| Surplus / (Deficit) as % of total income | (556.92)% | (349.11)% | | (5758.33)% | |

Variance from 2014 actual:

The Housing activities undertaken by the Municipality during the year was much less than in the previous year, which resulted in the decrease in the revenue generated.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

3. OPERATING RESULTS (Continue)

Variance from 2015 budget:

Based on the abovementioned fact that the Housing Activities undertaken by the Municipality during the year was less than in the previous financial years, the budget was adjusted for this which resulted in the variances.

3.3 Waste Management Services:

Waste Management Services are services rendered by the Municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|--|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income | 43,653,254 | 29,854,516 | 46.22% | 36,644,000 | 19.13% |
| Expenditure | (30,080,081) | (28,977,635) | 3.80% | (27,786,000) | 8.26% |
| Surplus / (Deficit) | 13,573,173 | 876,882 | 1447.89% | 8,858,000 | 53.23% |
| Surplus / (Deficit) as % of total income | 31.09% | 2.94% | | 24.17% | |

Variance from 2014 actual:

The Municipality was able to generate more revenue through its Waste Water Management revenue resources than expected. This is the reason for the fluctuation identified.

Variance from 2015 budget:

The Municipality was able to generate more revenue through its Waste Water Management revenue resources than expected. This is the reason for the fluctuation identified.

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the Municipality. The cost of bulk purchases to the Municipality was R45 222 232 (2014: R42 152 616). Tariffs levied for electricity are subject to administered adjustments.

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|--|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income | 67,029,700 | 60,589,837 | 10.63% | 71,350,000 | (6.06)% |
| Expenditure | (81,029,535) | (82,559,386) | (1.85)% | (61,956,000) | 30.79% |
| Surplus / (Deficit) | (13,999,835) | (21,969,548) | (36.28)% | 9,394,000 | (249.03)% |
| Surplus / (Deficit) as % of total income | (20.89)% | (36.26)% | | 13.17% | |

Variance from 2015 budget:

Due to the weak recovery of Consumer Debtors, the Municipality had to provide for additional Consumers which were not budgeted for. This resulted in the actual expenditure increasing significantly if compared to the budgeted expenditure. When the actual expenditure is compared to that of the previous financial year, the variance is insignificant.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

3. OPERATING RESULTS (Continue)

3.5 Water Services:

Water is bought in bulk from various sources and distributed to the consumers by the Municipality. The cost of bulk purchases to the Municipality was R1 826 423 (2014: R1 382 964). Tariffs levied for water are subject to administered adjustments.

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|--|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Income | 27,325,462 | 25,603,450 | 6.73% | 28,621,000 | (4.53)% |
| Expenditure | (30,122,760) | (32,709,812) | (7.91)% | (17,091,000) | 76.25% |
| Surplus / (Deficit) | (2,797,298) | (7,106,363) | (60.64)% | 11,530,000 | (124.26)% |
| Surplus / (Deficit) as % of total income | (10.24)% | (27.76)% | | 40.29% | |

Variance from 2015 budget:

Due to the weak recovery of Consumer Debtors, the Municipality had to provide for additional Consumers which were not budgeted for. This resulted in the actual expenditure increasing significantly if compared to the budgeted expenditure. When the actual expenditure is compared to that of the previous financial year, the variance is insignificant.

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R14 194 318 (2014: R21 457 449). Full details of Assets are disclosed in Notes 7, 8, 9, 10 and Appendices "B, C and E (4)" to the Annual Financial Statements.

The capital expenditure of R14 194 318 was financed as follows:

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|---------------------------------|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Grants and Subsidies | 13,832,615 | 19,396,197 | (28.68)% | 11,908,000 | 16.16% |
| Own Funds (Accumulated Surplus) | 361,703 | 2,061,253 | (82.45)% | 5,991,000 | (93.96)% |
| Borrowings | - | - | - | 6,000,000 | (100.00)% |
| | 14,194,318 | 21,457,449 | (3384.90)% | 23,899,000 | (177.80)% |

Source of funding as a percentage of Total Capital Expenditure:

| DETAILS | 2015 | 2014 |
|----------------------|---------|---------|
| Grants and Subsidies | 97.45% | 90.39% |
| Public Contributions | 2.55% | 9.61% |
| Borrowings | - | - |
| | 100.00% | 100.00% |

Capital Assets are funded to a great extent from grants and subsidies as the Municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

| DETAILS | 2015 | 2014 |
|---|--------------|--------------|
| <i>Variance per Category:</i> | | |
| Budgeted surplus before appropriations | 599,000 | (10,036,275) |
| Revenue variances | 8,210,156 | 16,368,380 |
| Expenditure variances: | | |
| Employee Related Costs | (3,899,269) | 1,822,845 |
| Remuneration of Councillors | 134,541 | (440,560) |
| Collection Costs | (283,077) | 1,696,003 |
| Depreciation and Amortisation | (53,496,887) | (59,614,973) |
| Impairment Losses | (20,394,130) | (39,304,389) |
| Repairs and Maintenance | (2,864,814) | 8,078,047 |
| Finance Costs | 1,193,450 | (578,279) |
| Bulk Purchases | 480,345 | (1,530,855) |
| Contracted Services | 470,587 | (93,666) |
| Grants and Subsidies Paid | 13,443,534 | 14,158,307 |
| General Expenses | 13,680,100 | 3,537,544 |
| Loss on Disposal of Property, Plant and Equipment | (744,226) | - |
| Inventory Written-off | - | (66,661) |
| Loss on Sale of Land | - | (203,456) |
| Actual surplus before appropriations | (43,470,691) | (66,207,989) |

| DETAILS | 2015 | 2014 |
|--|--------------|--------------|
| <i>Variance per Service Segment:</i> | | |
| Budgeted surplus before appropriations | 599,000 | (10,036,275) |
| Executive and Council | (968,446) | (337,576) |
| Finance and Administration | 604,448 | (1,194,102) |
| Planning and Development | (10,598,086) | (10,317,586) |
| Health | 161,879 | (900,567) |
| Community and Social Services | (9,896,662) | (9,489,146) |
| Housing | (1,701,382) | (2,023,665) |
| Public Safety | 18,481,758 | 17,533,002 |
| Sport and Recreation | 252,854 | 367,516 |
| Environmental Protection | - | - |
| Waste Management | 4,715,173 | (5,751,260) |
| Roads and Transport | (6,684,457) | 10,054,213 |
| Water | (14,327,298) | (20,475,381) |
| Electricity | (23,393,835) | (34,213,677) |
| Other | (715,637) | 576,514 |
| Actual surplus before appropriations | (43,470,691) | (66,207,989) |

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

5. RECONCILIATION OF BUDGET TO ACTUAL (Continue)

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

5.2 Capital Budget:

| DETAILS | Actual 2015 R | Actual 2014 R | Percentage Variance % | Budgeted 2015 R | Variance actual/ budgeted % |
|-------------------------------|---------------------|---------------------|-----------------------------|-----------------------|-----------------------------------|
| Executive and Council | 9,299 | 585,487 | (98.41)% | 153,000 | (93.92)% |
| Finance and Administration | 173,655 | 199,452 | (12.93)% | 1,317,000 | (86.81)% |
| Planning and Development | - | 499,643 | (100.00)% | 370,000 | (100.00)% |
| Health | 133,979 | - | 100.00% | 12,000 | 1016.49% |
| Community and Social Services | - | 62,903 | (100.00)% | - | (100.00)% |
| Housing | - | 713,769 | (100.00)% | 295,000 | (100.00)% |
| Public Safety | 13,832,615 | - | 100.00% | - | 100.00% |
| Sport and Recreation | 44,770 | - | 100.00% | 85,000 | (47.33)% |
| Environmental Protection | - | - | - | 251,000 | (100.00)% |
| Waste Management | - | - | - | - | - |
| Roads and Transport | - | 15,401,315 | (100.00)% | 4,980,000 | (100.00)% |
| Water | - | 1,681,260 | (100.00)% | 14,716,000 | (100.00)% |
| Electricity | - | 2,313,622 | (100.00)% | 420,000 | (100.00)% |
| Other | - | - | - | 1,300,000 | (100.00)% |
| | 14,194,318 | 21,457,449 | (33.85)% | 23,899,000 | (40.61)% |
| | | | | | |

Details of the results per segmental classification of capital expenditure are included in Appendix "C" and in Appendix "E (4)".

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2015 amounted to R916 891 138 (2014: R960 361 829) and is made up as follows:

| | |
|-----------------------------|-------------|
| Capital Replacement Reserve | 2,252,793 |
| Accumulated Surplus | 914,638,345 |
| | 916,891,138 |

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the Municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 22 and the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2015 was R2 391 846 (2014: R3 230 928).

Refer to Note 19 and Appendix "A" for more detail.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

8. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R37 013 607 as at 30 June 2015 (2014: R34 020 228) and is made up as follows:

| | |
|--|-------------------|
| Post-retirement Health Care Benefits Liability | 33,925,800 |
| Long Service Awards Liability | 3,087,807 |
| | <u>37,013,607</u> |

The Post-retirement Health Care Benefits Liability is in respect of continued Health Care Benefits for employees of the Municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

The Long-term Service Liability is an estimate of the long-service based on historical staff turnover. No other long-term service benefits are provided to employees. This liability is unfunded.

Refer to Note 20 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R16 450 671 as at 30 June 2015 (2014: R15 659 849) and is made up as follows:

| | |
|---|-------------------|
| Provision for Rehabilitation of Land-fill Sites | 16,450,671 |
| | <u>16,450,671</u> |

These provisions are made in order to enable the Municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 21 for more detail.

10. CURRENT LIABILITIES

Current Liabilities amounted R43 909 457 as at 30 June 2015 (2014: R43 139 203) and is made up as follows:

| | | |
|--|---------|-------------------|
| Consumer Deposits | Note 13 | 2,111,697 |
| Provisions | Note 14 | 1,346,184 |
| Payables from Exchange Transactions | Note 15 | 19,139,816 |
| Payables from Non-exchange Transactions | Note 16 | 1,609,422 |
| Unspent Conditional Grants and Receipts | Note 17 | 3,760,679 |
| VAT Payable | Note 18 | 1,557,051 |
| Bank Overdraft | Note 5 | 13,564,441 |
| Current Portion of Long-term Liabilities | Note 19 | 820,168 |
| | | <u>43,909,457</u> |

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the Municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R875 317 692 as at 30 June 2015 (2014: R923 981 907).

Refer to Note 7 and Appendices "B, C and E (4)" for more detail.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R253 393 as at 30 June 2015 (2014: R383 791).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the Municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 and Appendix "B" for more detail.

13. INVESTMENT PROPERTY

The net value of Investment Properties were R5 004 000 as at 30 June 2015 (2014: R5 004 000).

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of operations.

Refer to Note 9 and Appendix "B" for more detail.

14. HERITAGE ASSETS

The net value of Heritage Assets were R6 959 273 as at 30 June 2015 (2014: R6 959 273).

Heritage Assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Refer to Note 10 and Appendix "B" for more detail.

15. NON-CURRENT INVESTMENTS

The Municipality held Investments to the value of R25 639 as at 30 June 2015 (2014: R21 088).

Refer to Note 11 for more detail.

16. LONG-TERM RECEIVABLES

Long-term Receivables of R1 264 at 30 June 2015 (2014: R1 164) is made up as follows:

| | |
|---|---------------------|
| Other Loans | 1,264 |
| | <u>1,264</u> |
| Less: Short-term portion included in Current Assets | - |
| | <u><u>1,264</u></u> |

Refer to Note 12 for more detail.

17. CURRENT ASSETS

Current Assets amounted R129 110 136 as at 30 June 2015 (2014: R120 055 670) and is made up as follows:

| | | |
|--|--------|---------------------------|
| Inventories | Note 2 | 62,962,514 |
| Receivables from Exchange Transactions | Note 3 | 31,918,169 |
| Receivables from Non-exchange Transactions | Note 4 | 21,945,887 |
| Cash and Cash Equivalents | Note 5 | 12,281,744 |
| Operating Lease Assets | Note 6 | 1,822 |
| | | <u><u>129,110,136</u></u> |

The increase in the amount for Current Assets is mainly due to the increased amount for Receivables from Non-exchange Transactions in respect of fines accounted for in accordance with GRAP 23.

Refer to the indicated Notes for more detail.

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

18. INTER-GOVERNMENTAL GRANTS

The Municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 17 and 27, and Appendix "F" for more detail.

19. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 62.

20. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

31 August 2015

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

| | | Actual | |
|--|------|----------------------|-----------------------|
| | Note | 2015 R | 2014 Restated R |
| ASSETS | | | |
| Current Assets | | 129,110,136 | 120,055,670 |
| Inventories | 2 | 62,962,514 | 63,059,361 |
| Receivables from Exchange Transactions | 3 | 31,918,169 | 30,486,421 |
| Receivables from Non-exchange Transactions | 4 | 21,945,887 | 14,298,933 |
| Cash and Cash Equivalents | 5 | 12,281,744 | 12,210,203 |
| Current Portion of Operating Lease Receivables | 6 | 1,822 | 752 |
| Non-Current Assets | | 887,546,583 | 936,356,367 |
| Property, Plant and Equipment | 7 | 875,317,692 | 923,981,907 |
| Intangible Assets | 8 | 235,393 | 383,791 |
| Investment Property | 9 | 5,004,000 | 5,004,000 |
| Heritage Assets | 10 | 6,959,273 | 6,959,273 |
| Non-current Investments | 11 | 25,639 | 21,088 |
| Long-term Receivables | 12 | 1,264 | 1,164 |
| Operating Lease Receivables | 6 | 3,323 | 5,144 |
| Total Assets | | 1,016,656,720 | 1,056,412,037 |
| LIABILITIES | | | |
| Current Liabilities | | 43,909,457 | 43,139,203 |
| Consumer Deposits | 13 | 2,111,697 | 1,948,529 |
| Provisions | 14 | 1,346,184 | 1,413,504 |
| Payables from Exchange Transactions | 15 | 19,139,816 | 15,815,978 |
| Payables from Non-exchange Transactions | 16 | 1,609,422 | 1,416,698 |
| Unspent Conditional Grants and Receipts | 17 | 3,760,679 | 7,095,267 |
| VAT Payable | 18 | 1,557,051 | 713,849 |
| Bank Overdraft | 5 | 13,564,441 | 11,977,403 |
| Current Portion of Long-term Liabilities | 19 | 820,168 | 2,757,975 |
| Non-Current Liabilities | | 55,856,124 | 52,911,005 |
| Long-term Liabilities | 19 | 2,391,846 | 3,230,928 |
| Employee Benefit Liabilities | 20 | 37,013,607 | 34,020,228 |
| Non-current Provisions | 21 | 16,450,671 | 15,659,849 |
| Total Liabilities | | 99,765,582 | 96,050,208 |
| Total Assets and Liabilities | | 916,891,138 | 960,361,829 |
| NET ASSETS | | 916,891,138 | 960,361,829 |
| Accumulated Surplus / (Deficit) | 22 | 916,891,138 | 960,361,829 |
| Total Net Assets | | 916,891,138 | 960,361,829 |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

| | | Actual | |
|--|------|---------------------|---------------------|
| | Note | 2015 | 2014 |
| | | R | Restated R |
| REVENUE | | | |
| Revenue from Non-exchange Transactions | | | |
| Property Rates | 24 | 21,905,068 | 21,035,469 |
| Property Rates - Penalties imposed and collection charges | 30 | 170,342 | 149,924 |
| Fines | 25 | 24,477,475 | 14,898,701 |
| Licences and Permits | 26 | 1,256,930 | 1,304,582 |
| Government Grants and Subsidies Received | 27 | 54,243,255 | 58,853,606 |
| Revenue from Exchange Transactions | | | |
| Service Charges | 27 | 97,740,808 | 91,654,816 |
| Rental of Facilities and Equipment | 28 | 1,188,905 | 747,144 |
| Interest Earned - External Investments | 29 | 950,399 | 1,030,475 |
| Interest Earned - Outstanding Debtors | 29 | 645,761 | 625,352 |
| Other Revenue | 30 | 7,251,038 | 3,216,902 |
| Gains on Other Operations | 43 | 4,551 | 7,108 |
| Gains on Disposal of Property, Plant and Equipment | 44 | - | 164,092 |
| Profit on Sale of Land | 31 | 978,624 | - |
| Total Revenue | | 210,813,156 | 193,688,171 |
| EXPENDITURE | | | |
| Employee Related Costs | 32 | 66,864,269 | 59,893,633 |
| Remuneration of Councillors | 33 | 4,126,459 | 4,157,184 |
| Collection Costs | 34 | 283,077 | - |
| Depreciation and Amortisation | 35 | 62,177,887 | 68,118,102 |
| Impairment Losses | 36 | 30,897,130 | 43,186,035 |
| Repairs and Maintenance | 37 | 11,214,814 | 11,610,873 |
| Finance Costs | 38 | 1,336,550 | 1,607,928 |
| Bulk Purchases | 39 | 47,048,655 | 43,535,580 |
| Contracted Services | 40 | 7,767,413 | 7,227,685 |
| Grants and Subsidies Paid | 41 | 225,467 | 750,004 |
| General Expenses | 42 | 21,597,900 | 19,672,718 |
| Loss on Disposal of Property, Plant and Equipment | 44 | 744,226 | - |
| Inventory Written-off | | - | 66,661 |
| Loss on Sale of Land | 31 | - | 69,756 |
| Total Expenditure | | 254,283,847 | 259,896,161 |
| SURPLUS / (DEFICIT) FOR THE YEAR | | (43,470,691) | (66,207,989) |
| Refer to Budget Statement for explanation of budget variances | | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2015

| Description | Accumulated Surplus / (Deficit) Account | | Total for Accumulated Surplus/(Deficit) Account | Total |
|---------------------------------------|---|---------------------------------------|--|----------------------|
| | Capital Replacement Reserve | Accumulated Surplus / (Deficit) | | |
| 2014 | R | R | R | R |
| Balance at 1 July 2013 | 2,252,793 | 1,020,534,150 | 1,022,786,943 | 1,022,786,943 |
| Change in Accounting Policy (Note 45) | - | 6,959,273 | 6,959,273 | 6,959,273 |
| Correction of Error (Note 46) | - | (3,176,398) | (3,176,398) | (3,176,398) |
| Restated Balance | 2,252,793 | 1,024,317,025 | 1,026,569,818 | 1,026,569,818 |
| Surplus / (Deficit) for the year | | (66,207,989) | (66,207,989) | (66,207,989) |
| Balance at 30 June 2014 | 2,252,793 | 958,109,036 | 960,361,829 | 960,361,829 |
| 2015 | | | | |
| Restated Balance at 1 July 2014 | 2,252,793 | 958,109,036 | 960,361,829 | 960,361,829 |
| Surplus / (Deficit) for the year | | (43,470,691) | (43,470,691) | (43,470,691) |
| Balance at 30 June 2015 | - | 914,638,345 | 916,891,138 | 916,891,138 |

Details on the movement of the Funds and Reserves are set out in Note 22.

EMTHANJENI LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

| | | Actual | |
|---|------|----------------------------|----------------------------|
| | Note | 2015 R | 2014 Restated R |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts | | | |
| Property Rates | | 23,561,393 | 17,407,400 |
| Government Grant and Subsidies | | 50,908,667 | 53,829,613 |
| Service Charges | | 81,297,351 | 86,505,562 |
| Interest Received | | 1,596,161 | 1,030,475 |
| Other Receipts | | 9,763,994 | (2,789,785) |
| Payments | | | |
| Employee Related Costs | | (61,863,068) | (56,840,637) |
| Remuneration of Councillors | | (4,126,459) | (4,157,184) |
| Interest Paid | | (1,336,550) | (1,607,928) |
| Suppliers Paid | | (85,494,640) | (83,052,723) |
| Other Payments | | (37,361) | 2,333,858 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 48 | <u>14,269,486</u> | <u>12,658,650</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of Property, Plant and Equipment | 9 | (14,172,439) | (21,458,762) |
| Purchase of Intangible Assets | 10 | (21,879) | (92,919) |
| Proceeds on Disposal of Property, Plant and Equipment | 44 | - | 519,161 |
| Proceeds on Sale of Land | 31 | 1,186,324 | 470,543 |
| Decrease / (Increase) in Long-term Receivables | 12 | (100) | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | <u>(13,008,094)</u> | <u>(20,561,977)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from Borrowings | 19 | (2,776,889) | (2,503,720) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | <u>(2,776,889)</u> | <u>(2,503,720)</u> |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | <u>(1,515,497)</u> | <u>(10,407,047)</u> |
| Cash and Cash Equivalents at Beginning of Period | 5 | 232,800 | 10,639,847 |
| Cash and Cash Equivalents at End of Period | 5 | (1,282,697) | 232,800 |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2015

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|--|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|----------------------|----------------------|-----------------------------|---------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| FINANCIAL POSITION | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Inventories | 45,899,000 | - | 45,899,000 | - | - | 45,899,000 | 62,962,514 | - | 17,063,514 | 37.18% | 37.18% |
| Receivables from Exchange Transactions | 9,171,000 | - | 9,171,000 | - | - | 9,171,000 | 31,918,169 | - | 22,747,169 | 248.03% | 248.03% |
| Receivables from Non-exchange Transactions | 9,243,000 | - | 9,243,000 | - | - | 9,243,000 | 21,945,887 | - | 12,702,887 | 137.43% | 137.43% |
| Cash and Cash Equivalents | 14,632,000 | - | 14,632,000 | - | - | 14,632,000 | 12,281,744 | - | (2,350,256) | (16.06)% | (16.06)% |
| Current Portion of Operating Lease Receivables | - | - | - | - | - | - | 1,822 | - | 1,822 | 100.00% | 100.00% |
| Non-Current Assets | | | | | | | | | | | |
| Property, Plant and Equipment | 942,332,000 | - | 942,332,000 | - | - | 942,332,000 | 875,317,692 | - | (67,014,308) | (7.11)% | (7.11)% |
| Intangible Assets | 1,283,000 | - | 1,283,000 | - | - | 1,283,000 | 235,393 | - | (1,047,607) | (81.65)% | (81.65)% |
| Investment Property | 4,272,000 | - | 4,272,000 | - | - | 4,272,000 | 5,004,000 | - | 732,000 | 17.13% | 17.13% |
| Heritage Assets | - | - | - | - | - | - | 6,959,273 | - | 6,959,273 | 100.00% | 100.00% |
| Non-current Investments | - | - | - | - | - | - | 25,639 | - | 25,639 | 100.00% | 100.00% |
| Long-term Receivables | 168,000 | - | 168,000 | - | - | 168,000 | 1,264 | - | (166,736) | (99.25)% | (99.25)% |
| Operating Lease Receivables | - | - | - | - | - | - | 3,323 | - | 3,323 | 100.00% | 100.00% |
| Total Assets | 1,027,000,000 | - | 1,027,000,000 | - | - | 1,027,000,000 | 1,016,656,720 | - | (10,343,280) | | |
| Current Liabilities | | | | | | | | | | | |
| Consumer Deposits | 1,932,000 | - | 1,932,000 | - | - | 1,932,000 | 2,111,697 | - | 179,697 | 9.30% | 9.30% |
| Provisions | 2,017,000 | - | 2,017,000 | - | - | 2,017,000 | 1,346,184 | - | (670,816) | (33.26)% | (33.26)% |
| Payables from Exchange Transactions | 11,306,000 | - | 11,306,000 | - | - | 11,306,000 | 19,139,816 | - | 7,833,816 | 69.29% | 69.29% |
| Payables from Non-exchange Transactions | - | - | - | - | - | - | 1,609,422 | - | 1,609,422 | (100.00)% | (100.00)% |
| Unspent Conditional Grants and Receipts | - | - | - | - | - | - | 3,760,679 | - | 3,760,679 | (100.00)% | (100.00)% |
| VAT Payable | - | - | - | - | - | - | 1,557,051 | - | 1,557,051 | (100.00)% | (100.00)% |
| Bank Overdraft | 1,026,000 | - | 1,026,000 | - | - | 1,026,000 | 13,564,441 | - | 12,538,441 | 1222.07% | 1222.07% |
| Current Portion of Long-term Liabilities | 1,374,000 | - | 1,374,000 | - | - | 1,374,000 | 820,168 | - | (553,832) | (40.31)% | (40.31)% |
| Non-Current Liabilities | | | | | | | | | | | |
| Long-term Liabilities | 11,176,000 | - | 11,176,000 | - | - | 11,176,000 | 2,391,846 | - | (8,784,154) | (78.60)% | (78.60)% |
| Retirement Benefit Liabilities | 34,194,000 | - | 34,194,000 | - | - | 34,194,000 | 37,013,607 | - | 2,819,607 | 8.25% | 8.25% |
| Non-current Provisions | - | - | - | - | - | - | 16,450,671 | - | 16,450,671 | 100.00% | 100.00% |
| Total Liabilities | 63,025,000 | - | 63,025,000 | - | - | 63,025,000 | 99,765,582 | - | 36,740,582 | | |
| Total Assets and Liabilities | 963,975,000 | - | 963,975,000 | - | - | 963,975,000 | 916,891,138 | - | (47,083,862) | | |
| Net Assets (Equity) | | | | | | | | | | | |
| Accumulated Surplus / (Deficit) | 963,975,000 | - | 963,975,000 | - | - | 963,975,000 | 916,891,138 | - | (47,083,862) | (4.88)% | (4.88)% |
| Total Net Assets | 963,975,000 | - | 963,975,000 | - | - | 963,975,000 | 916,891,138 | - | (47,083,862) | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Inventories:

More stores were procured and water stock levels increased during the financial year. In addition to this, management did a full land audit in the 2014 financial year between the financial records and the title deeds and accounted for all land parcels available for sale, resulting in a significant increase. This audit was only completed after the submission of the budget.

Receivables from Exchange Transactions:

Similar to the previous financial year, management is attempting to enforce the Debt and Credit Collection Policy, resulting a significant lower budgeted amount. The results were however not obtained. The increase however remains consistent with that of the previous year and a sufficient provision for doubtful debt was provided for all doubtful consumer debtors, excluding Government Debt.

Receivables from Non-exchange Transactions:

The material variance is attributed to the recognition of all fines in accordance with GRAP 23. Previously, the Municipality accounted for the Fines Revenue on a "cash basis". But due to the qualification received, management has accounted for these in accordance with the applicable Accounting Standards.

Cash and Cash Equivalents:

The expected cash balance was not achieved due to the consumer debtors not being recovered as planned.

Operating Lease Receivables:

The remaining Operating Lease Asset balance is immaterial and has therefore not been budgeted for.

Intangible Assets:

Due to the amortisation expense during the year. The Municipality planned to investment in Intangible Assets (purchase) during year, which did not occur.

Investment Property:

Management budgeted for an decrease in the value of the property, which did not occur during the year.

Heritage Assets:

The transitional provisions of GRAP 103 ended in the current year (i.e. 30 June 2015) and the Heritage Assets were valued and recorded in accordance with GRAP 3.

Non-current Investments:

The remaining Non-current Investment balance is immaterial and has therefore not been budgeted for.

Long-term Receivables:

Loan (receivable) accounts at OVK. These loans were obtained and not acquired and does not form part of the operations. Therefore, no movement or balance was budgeted for.

Provisions:

An actuarial gain (as determined by the actuaries) resulted in the increase not meeting the expected growth (increase).

Payables from Exchange Transactions:

The Unknown Deposits increased significantly during year. Although the Municipality has procedures in place to identify these deposits and allocate them to the correct items, very few of the items can be traced based on the information provided. This, together with the fact that not all creditors were paid in full at yearend, resulted in the variance.

Payables from Non-exchange Transactions:

The Municipality did not budget for this line item as it is represented by Paid in Advance accounts.

Unspent Conditional Grants and Receipts:

Management anticipated all grant funding to be used for the specific purpose assigned. At yearend however, unspent MIG funding was still available which will be used for capital projects in the next financial year.

VAT Payable:

The Municipality did not budget for any VAT to be payable at yearend, but due to the fact that the Municipality is on the cash-basis of accounting and all debtors were not recovered at yearend, a balance does exist.

Bank Overdraft:

At yearend, the Municipality paid the Eskom bulk electricity account which had a significant impact on the primary bank account. There are however sufficient funds to ensure the Municipality can cover this debt and continue to provide services and pay other creditors. Refer to the Cash and Cash Equivalents increase recorded.

Current Portion of Long-term Liabilities:

Please refer to the explanation provided under the 'Long-term Liabilities'.

Long-term Liabilities:

The Municipality planned to obtain a new loan to finance certain capital purchases. The loan was however not obtained during the year.

Retirement Benefit Liabilities:

The increase is attributable to the variables within the actuarial valuation, which increased resulting in higher than expected interest costs.

Non-current Provisions:

Although the Municipality did not budget for the Landfill Site Rehabilitation Provision, this is a requirement by the standards and was therefore included in the Financial Statements.

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2015

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|--------------------|---------------------|-----------------------------|---------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| FINANCIAL PERFORMANCE | | | | | | | | | | | |
| Revenue from Non-exchange Transactions | | | | | | | | | | | |
| Property Rates | 23,785,000 | - | 23,785,000 | - | - | 23,785,000 | 21,905,068 | - | (1,879,932) | (7.90)% | (7.90)% |
| Property Rates - Penalties imposed and collection charges | - | - | - | - | - | - | 170,342 | - | 170,342 | 100.00% | 100.00% |
| Fines | 6,624,000 | - | 6,624,000 | - | - | 6,624,000 | 24,477,475 | - | 17,853,475 | 269.53% | 269.53% |
| Licences and Permits | 1,874,000 | - | 1,874,000 | - | - | 1,874,000 | 1,256,930 | - | (617,070) | (32.93)% | (32.93)% |
| Government Grants and Subsidies Received | 68,881,000 | (16,540,000) | 52,341,000 | - | - | 52,341,000 | 54,243,255 | - | 1,902,255 | 3.63% | (21.25)% |
| Revenue from Exchange Transactions | | | | | | | | | | | |
| Service Charges | 100,511,000 | (4,147,000) | 96,364,000 | - | - | 96,364,000 | 97,740,808 | - | 1,376,808 | 1.43% | (2.76)% |
| Rental of Facilities and Equipment | 755,000 | (153,000) | 602,000 | - | - | 602,000 | 1,188,905 | - | 586,905 | 97.49% | 57.47% |
| Interest Earned - External Investments | 940,000 | - | 940,000 | - | - | 940,000 | 950,399 | - | 10,399 | 1.11% | 1.11% |
| Interest Earned - Outstanding Debtors | 819,000 | - | 819,000 | - | - | 819,000 | 645,761 | - | (173,239) | (21.15)% | (21.15)% |
| Other Income | 25,131,000 | (6,000,000) | 19,131,000 | - | - | 19,131,000 | 7,251,038 | - | (11,879,962) | (62.10)% | (71.15)% |
| Gains on Other Operations | - | - | - | - | - | - | 4,551 | - | 4,551 | 100.00% | 100.00% |
| Gains on Disposal of Property, Plant and Equipment | 120,000 | - | 120,000 | - | - | 120,000 | - | - | (120,000) | (100.00)% | (100.00)% |
| Profit on Sale of Land | - | - | - | - | - | - | 978,624 | - | 978,624 | #DIV/0! | #DIV/0! |
| Total Revenue | 229,440,000 | (26,840,000) | 202,600,000 | - | - | 202,600,000 | 210,813,156 | - | 8,213,156 | | |
| Expenditure | | | | | | | | | | | |
| Employee Related Costs | 62,980,000 | (15,000) | 62,965,000 | - | - | 62,965,000 | 66,864,269 | - | 3,899,269 | 6.19% | 6.17% |
| Remuneration of Councillors | 4,308,000 | (47,000) | 4,261,000 | - | - | 4,261,000 | 4,126,459 | - | (134,541) | (3.16)% | (4.21)% |
| Collection Costs | - | - | - | - | - | - | 283,077 | - | 283,077 | 100.00% | 100.00% |
| Depreciation and Amortisation | 8,681,000 | - | 8,681,000 | - | - | 8,681,000 | 62,177,887 | - | 53,496,887 | 616.25% | 616.25% |
| Impairment Losses | 10,827,000 | (324,000) | 10,503,000 | - | - | 10,503,000 | 30,897,130 | - | 20,394,130 | 194.17% | 185.37% |
| Repairs and Maintenance | 8,350,000 | - | 8,350,000 | - | - | 8,350,000 | 11,214,814 | - | 2,864,814 | 34.31% | 34.31% |
| Finance Costs | 1,700,000 | 830,000 | 2,530,000 | - | - | 2,530,000 | 1,336,550 | - | (1,193,450) | (47.17)% | (21.38)% |
| Bulk Purchases | 47,529,000 | - | 47,529,000 | - | - | 47,529,000 | 47,048,655 | - | (480,345) | (1.01)% | (1.01)% |
| Contracted Services | 8,830,000 | (592,000) | 8,238,000 | - | - | 8,238,000 | 7,767,413 | - | (470,587) | (5.71)% | (12.03)% |
| Grants and Subsidies Paid | 13,669,000 | - | 13,669,000 | - | - | 13,669,000 | 225,467 | - | (13,443,534) | (98.35)% | (98.35)% |
| General Expenses | 34,793,000 | 485,000 | 35,278,000 | - | - | 35,278,000 | 21,597,900 | - | (13,680,100) | (38.78)% | (37.92)% |
| Loss on Disposal of Property, Plant and Equipment | - | - | - | - | - | - | 744,226 | - | 744,226 | 100.00% | 100.00% |
| Total Expenditure | 201,667,000 | 337,000 | 202,004,000 | - | - | 202,004,000 | 254,283,847 | - | 52,279,847 | | |
| Surplus/(Deficit) | 27,773,000 | (27,177,000) | 596,000 | - | - | 596,000 | (43,470,691) | - | (44,066,691) | (7393.74)% | (256.52)% |
| Surplus/(Deficit for the Year) | 27,773,000 | (27,177,000) | 596,000 | - | - | 596,000 | (43,470,691) | - | (44,066,691) | | |
| | | | | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates - Penalties imposed and collection charges:

The Property Rates - Penalties imposed and collection charges is budgeted for under Interest Received.

Fines:

For the financial years presented, all fines (irrespective whether they are recoverable) were recognised. The relating debtor was tested for impairment in order to reflect the recoverable amount at yearend.

Licences and Permits:

The Municipality was not able to generate the desired revenue through their License and Permits Department.

Rental of Facilities and Equipment:

The Municipality was able to generate more than the budgeted revenue through their rentals. This is due to the market demand, which increased, together with the annual increase in the tariffs.

Interest Earned - Outstanding Debtors:

As the number of Indigents are increasing, the number of Consumers on whom interest are levied is decreasing.

Other Income:

The Municipality was not able to generate the desired revenue.

Gains on Other Operations:

Due to the fair value adjustment made to Non-current Investments which were not anticipated and budgeted for.

Gains on Disposal of Property, Plant and Equipment:

No Property, Plant and Equipment was disposed of during the year.

Profit on Sale of Land:

The Municipality was able to sell land at a reasonable profit during the year, which resulted in this unforeseen profit being recorded.

Collection Costs:

The Municipality appointed a new service provider to assist with the recovering of outstanding debt. This appointment was made during the year and did not form part of management's initial plans.

Depreciation and Amortisation:

Due to the gross depreciation effect. The budget reflects the net gross depreciation. The backlog depreciation is specifically excluded from the budgeted figure.

Impairment Losses:

The provision for doubtful debt significantly increased during the year, due to the weaker payment (receipt) ratios calculated on each individual debtor. Additional to this, management recognised all fines issued during the year and this debtor was impaired.

Grants and Subsidies Paid:

The budgeted figure includes all capital expenditure, which has been reclassified to the correct financial statement line items.

Loss on Disposal of Property, Plant and Equipment:

A number of assets could not be verified during the asset verification, which resulted in these assets being written-off.

2015

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|-------------------|-------------------|-----------------------------|--------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| CAPITAL EXPENDITURE PER FUNCTION | | | | | | | | | | | |
| Executive and Council | 153,000 | - | 153,000 | - | - | 153,000 | 9,299 | - | (143,701) | (93.92)% | (93.92)% |
| Finance and Administration | 1,317,000 | - | 1,317,000 | - | - | 1,317,000 | 173,655 | - | (1,143,345) | (86.81)% | (86.81)% |
| Planning and Development | 370,000 | - | 370,000 | - | - | 370,000 | - | - | (370,000) | (100.00)% | (100.00)% |
| Health | 12,000 | - | 12,000 | - | - | 12,000 | 133,979 | - | 121,979 | 1016.49% | 1016.49% |
| Community and Social Services | - | - | - | - | - | - | - | - | - | - | - |
| Housing | 295,000 | - | 295,000 | - | - | 295,000 | - | - | (295,000) | (100.00)% | (100.00)% |
| Public Safety | - | - | - | - | - | - | 13,832,615 | - | 13,832,615 | 100.00% | 100.00% |
| Sport and Recreation | 85,000 | - | 85,000 | - | - | 85,000 | 44,770 | - | (40,230) | (47.33)% | (47.33)% |
| Environmental Protection | 251,000 | - | 251,000 | - | - | 251,000 | - | - | (251,000) | (100.00)% | (100.00)% |
| Waste Management | - | - | - | - | - | - | - | - | - | - | - |
| Roads and Transport | 4,980,000 | - | 4,980,000 | - | - | 4,980,000 | - | - | (4,980,000) | (100.00)% | (100.00)% |
| Water | 14,716,000 | - | 14,716,000 | - | - | 14,716,000 | - | - | (14,716,000) | (100.00)% | (100.00)% |
| Electricity | 17,110,000 | (16,690,000) | 420,000 | - | - | 420,000 | - | - | (420,000) | (100.00)% | (100.00)% |
| Other | 1,300,000 | - | 1,300,000 | - | - | 1,300,000 | - | - | (1,300,000) | (100.00)% | (100.00)% |
| Total Capital Expenditure | 40,589,000 | (16,690,000) | 23,899,000 | - | - | 23,899,000 | 14,194,318 | - | (9,704,682) | | |

Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual

The Municipality was not able to obtain the required R6 000 000 loan during the year. This resulted in the capital budget not being met as all acquisitions could not be financed.

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2015

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|--------------------|--------------------|-----------------------------|------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| CASH FLOW | | | | | | | | | | | |
| Cash Flows from/(used in) Operating Activities | | | | | | | | | | | |
| Property Rates | 153,090,000 | (10,644,000) | 142,446,000 | - | - | 142,446,000 | 23,561,393 | - | (118,884,607) | (83.46)% | (84.61)% |
| Grants | 68,881,000 | (16,540,000) | 52,341,000 | - | - | 52,341,000 | 50,908,667 | - | (1,432,333) | (2.74)% | (26.09)% |
| Service Charges | - | - | - | - | - | - | 81,297,351 | - | 81,297,351 | 100.00% | 100.00% |
| Interest Received | 940,000 | - | 940,000 | - | - | 940,000 | 1,596,161 | - | 656,161 | 69.80% | 69.80% |
| Other Receipts | - | - | - | - | - | - | 9,763,994 | - | 9,763,994 | 100.00% | 100.00% |
| Employee Related Costs | (163,870,000) | 493,000 | (163,377,000) | - | - | (163,377,000) | (61,863,068) | - | 101,513,932 | (62.13)% | (62.25)% |
| Remuneration of Councillors | - | - | - | - | - | - | (4,126,459) | - | (4,126,459) | 100.00% | 100.00% |
| Interest Paid | (1,700,000) | (830,000) | (2,530,000) | - | - | (2,530,000) | (1,336,550) | - | 1,193,450 | (47.17)% | (21.38)% |
| Suppliers Paid | - | - | - | - | - | - | (85,494,640) | - | (85,494,640) | 100.00% | 100.00% |
| Other Payments | (13,669,000) | - | (13,669,000) | - | - | (13,669,000) | (37,361) | - | 13,631,639 | (99.73)% | (99.73)% |
| Cash Flows from/(used in) Investing Activities | | | | | | | | | | | |
| Purchase of Property, Plant and Equipment | (40,589,000) | 16,690,000 | (23,899,000) | - | - | (23,899,000) | (14,194,318) | - | 9,704,682 | (40.61)% | (65.03)% |
| Proceeds on Disposal of Property, Plant and Equipment | 120,000 | - | 120,000 | - | - | 120,000 | 1,186,324 | - | 1,066,324 | 888.60% | 888.60% |
| Decrease / (Increase) in Long-term Receivables | - | - | - | - | - | - | (100) | - | (100) | (100.00)% | (100.00)% |
| Cash Flows from/(used in) Financing Activities | | | | | | | | | | | |
| New Loans raised | 6,000,000 | - | 6,000,000 | - | - | 6,000,000 | - | - | (6,000,000) | (100.00)% | (100.00)% |
| Loans repaid | (3,384,000) | - | (3,384,000) | - | - | (3,384,000) | (2,776,889) | - | 607,111 | (17.94)% | (17.94)% |
| Increase / (Decrease) in Consumer Deposits | 135,000 | - | 135,000 | - | - | 135,000 | - | - | (135,000) | (100.00)% | (100.00)% |
| Cash and Cash Equivalents at End of the Year | 5,954,000 | (10,831,000) | (4,877,000) | - | - | (4,877,000) | (1,515,495) | - | 3,361,505 | | |
| Cash Flow: Explanation of Variances between Approved Budget and Actual | | | | | | | | | | | |
| Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below: | | | | | | | | | | | |
| The Municipality was unable to ensure that less money is spent than budgeted for through implemented cost savings methods. | | | | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2014

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|--|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|--------------------|----------------------|-----------------------------|--------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| FINANCIAL POSITION | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Inventories | 43,301,000 | - | 43,301,000 | - | - | 43,301,000 | 63,059,361 | - | 19,758,361 | 45.63% | 45.63% |
| Receivables from Exchange Transactions | 12,037,000 | - | 12,037,000 | - | - | 12,037,000 | 30,486,421 | - | 18,449,421 | 153.27% | 153.27% |
| Receivables from Non-exchange Transactions | 8,558,000 | - | 8,558,000 | - | - | 8,558,000 | 14,298,933 | - | 5,740,933 | 67.08% | 67.08% |
| Cash and Cash Equivalents | 13,301,000 | (3,063,000) | 10,238,000 | - | - | 10,238,000 | 12,210,203 | - | 1,972,203 | 19.26% | (8.20)% |
| Current Portion of Operating Lease Receivables | - | - | - | - | - | - | 752 | - | 752 | 100.00% | 100.00% |
| Non-Current Assets | | | | | | | | | | | |
| Property, Plant and Equipment | 888,993,000 | (23,205,000) | 865,788,000 | - | - | 865,788,000 | 923,981,907 | - | 58,193,907 | 6.72% | 3.94% |
| Intangible Assets | 1,166,000 | - | 1,166,000 | - | - | 1,166,000 | 383,791 | - | (782,209) | (67.08)% | (67.08)% |
| Investment Property | 4,272,000 | - | 4,272,000 | - | - | 4,272,000 | 5,004,000 | - | 732,000 | 17.13% | 17.13% |
| Heritage Assets | - | - | - | - | - | - | 6,959,273 | - | 6,959,273 | 100.00% | 100.00% |
| Non-current Investments | 177,000 | - | 177,000 | - | - | 177,000 | 21,088 | - | (155,912) | (88.09)% | (88.09)% |
| Long-term Receivables | - | - | - | - | - | - | 1,164 | - | 1,164 | 100.00% | 100.00% |
| Operating Lease Receivables | - | - | - | - | - | - | 5,144 | - | 5,144 | 100.00% | 100.00% |
| Total Assets | 971,805,000 | (26,268,000) | 945,537,000 | - | - | 945,537,000 | 1,056,412,037 | - | 110,875,037 | | |
| Current Liabilities | | | | | | | | | | | |
| Consumer Deposits | 1,899,000 | - | 1,899,000 | - | - | 1,899,000 | 1,948,529 | - | 49,529 | 2.61% | 2.61% |
| Provisions | 1,920,000 | - | 1,920,000 | - | - | 1,920,000 | 1,413,504 | - | (506,496) | (26.38)% | (26.38)% |
| Payables from Exchange Transactions | 5,924,000 | - | 5,924,000 | - | - | 5,924,000 | 15,815,978 | - | 9,891,978 | 166.98% | 166.98% |
| Payables from Non-exchange Transactions | - | - | - | - | - | - | 1,416,698 | - | 1,416,698 | 100.00% | 11.38% |
| Unspent Conditional Grants and Receipts | 1,272,000 | - | 1,272,000 | - | - | 1,272,000 | 7,095,267 | - | 5,823,267 | 457.80% | 104.47% |
| VAT Payable | 3,470,000 | - | 3,470,000 | - | - | 3,470,000 | 713,849 | - | (2,756,151) | (79.43)% | 10.00% |
| Bank Overdraft | 1,251,000 | - | 1,251,000 | - | - | 1,251,000 | 11,977,403 | - | 10,726,403 | 857.43% | 857.43% |
| Current Portion of Long-term Liabilities | 1,296,000 | - | 1,296,000 | - | - | 1,296,000 | 2,757,975 | - | 1,461,975 | 112.81% | 112.81% |
| Non-Current Liabilities | | | | | | | | | | | |
| Long-term Liabilities | 10,543,000 | - | 10,543,000 | - | - | 10,543,000 | 3,230,928 | - | (7,312,072) | (69.35)% | (69.35)% |
| Retirement Benefit Liabilities | 29,224,000 | - | 29,224,000 | - | - | 29,224,000 | 34,020,228 | - | 4,796,228 | 16.41% | 16.41% |
| Non-current Provisions | 3,035,000 | - | 3,035,000 | - | - | 3,035,000 | 15,659,849 | - | 12,624,849 | 415.98% | 415.98% |
| Total Liabilities | 59,834,000 | - | 59,834,000 | - | - | 59,834,000 | 96,050,208 | - | 36,216,208 | | |
| Total Assets and Liabilities | 911,971,000 | (26,268,000) | 885,703,000 | - | - | 885,703,000 | 960,361,829 | - | 74,658,829 | | |
| Net Assets (Equity) | | | | | | | | | | | |
| Accumulated Surplus / (Deficit) | 911,971,000 | (26,268,000) | 885,703,000 | - | - | 885,703,000 | 960,361,829 | - | 74,658,829 | 8.43% | 5.31% |
| Total Net Assets | 911,971,000 | (26,268,000) | 885,703,000 | - | - | 885,703,000 | 960,361,829 | - | 74,658,829 | | |
| | | | | | | | (0) | | (0) | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Inventories:

More stores were procured and water stock levels increased during the financial year. In addition to this, management did a full land audit between the financial records and the title deeds and accounted for all land parcels available for sale, resulting in a significant increase.

Receivables from Exchange Transactions:

Management is attempting to enforce the Debt and Credit Collection Policy, resulting a significant lower budgeted amount. The results were however not obtained. The increase however remains consistent with that of the previous year and a sufficient provision for doubtful debt was provided for all doubtful consumer debtors, excluding Government Debt. This provision includes all Indigent Debtors.

VAT Receivable:

Management budgeted for a VAT payable at yearend. Due to the significant increase in the impairment provision, the VAT portion of the provision resulted in a receivable being recognised at yearend.

Cash and Cash Equivalents:

Cash control and management by the Finance Department and all managers resulted in the significant increase. Management ensures that sufficient cash is available to cover all short term debt, as well as unspent conditional grants that may exist at yearend.

Operating Lease Receivables:

This movement represents an accounting entry, as required by GRAP 13: Leases, and was not budgeted for.

Intangible Assets:

Due to the amortisation expense during the year. The financial systems used by the Municipality represents a significant portion of the balance and the amortisation expense was higher than expected.

Investment Property:

Management budgeted for an decrease in the value of the property, which did not occur during the year.

Non-current Investments:

The municipality has shares in OVK. These shares were obtained and not acquired and does not form part of the operations. Therefore, no movement or balance was budgeted for.

Long-term Receivables:

Loan (receivable) accounts at OVK. These loans were obtained and not acquired and does not form part of the operations. Therefore, no movement or balance was budgeted for.

Provisions:

An actuarial gain (as determined by the actuaries) resulted in the increase not meeting the expected growth (increase).

Payables from Exchange Transactions:

In prior financial years, the municipality did not recognise any retention fees at yearend. This error was subsequently (and retrospectively) corrected. The aforementioned, with the increase in other creditors resulted in the unexpected increase.

Unspent Conditional Grants and Receipts:

Management anticipated all grant funding to be used for the specific purpose assigned. At yearend however, unspent MIG funding was still available which will be used for capital projects in the next financial year. The municipality is also constructed the electricity line for the new hospital, which has not been finished and the unspent portion remains as unspent.

VAT Payable:

Please refer to 'VAT Receivable' for the supporting explanation.

Bank Overdraft:

At yearend, the municipality paid the Eskom bulk electricity account which had a significant impact on the primary bank account. There are however sufficient funds to ensure the municipality can cover this debt and continue to provide services and pay other creditors. Refer to the Cash and Cash Equivalents increase recorded.

Current Portion of Long-term Liabilities:

Please refer to the explanation provided under the 'Long-term Liabilities'.

Long-term Liabilities:

Management is repaying the Long-term Liabilities quicker than anticipated. Management did not default on any loan payment and have controls in place to ensure these obligations are settled within the agreed period.

Retirement Benefit Liabilities:

The increase is attributable to the variables within the actuarial valuation, which increased resulting in higher than expected interest costs.

Non-current Provisions:

The unexpected increase in the Landfill Site provision recorded in the 2012/2013 financial year, resulted in the lower budgeted amount.

Accumulated Surplus / (Deficit):

Due to the errors identified during the financial year and the retrospective adjustment thereof.

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2014

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|--------------------|---------------------|-----------------------------|---------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| FINANCIAL PERFORMANCE | | | | | | | | | | | |
| Revenue from Non-exchange Transactions | | | | | | | | | | | |
| Property Rates | 21,373,000 | - | 21,373,000 | - | - | 21,373,000 | 21,035,469 | - | (337,531) | (1.58)% | (1.58)% |
| Property Rates - Penalties imposed and collection charges | - | - | - | - | - | - | 149,924 | - | 149,924 | 100.00% | 100.00% |
| Fines | 7,543,000 | (2,765,000) | 4,778,000 | - | - | 4,778,000 | 14,898,701 | - | 10,120,701 | 211.82% | 97.52% |
| Licences and Permits | 1,230,000 | - | 1,230,000 | - | - | 1,230,000 | 1,304,582 | - | 74,582 | 6.06% | 6.06% |
| Government Grants and Subsidies Received | 76,877,000 | (23,500,000) | 53,377,000 | - | - | 53,377,000 | 58,853,606 | - | 5,476,606 | 10.26% | (23.44)% |
| Revenue from Exchange Transactions | | | | | | | | | | | |
| Service Charges | 96,874,000 | (5,141,000) | 91,733,000 | - | - | 91,733,000 | 91,654,816 | - | (78,184) | (0.09)% | (5.39)% |
| Rental of Facilities and Equipment | 529,000 | - | 529,000 | - | - | 529,000 | 747,144 | - | 218,144 | 41.24% | 41.24% |
| Interest Earned - External Investments | 792,000 | 1,000 | 793,000 | - | - | 793,000 | 1,030,475 | - | 237,475 | 29.95% | 30.11% |
| Interest Earned - Outstanding Debtors | 741,000 | (1,000) | 740,000 | - | - | 740,000 | 625,352 | - | (114,648) | (15.49)% | (15.61)% |
| Other Income | 16,713,000 | 2,824,000 | 19,537,000 | - | - | 19,537,000 | 3,216,902 | - | (16,320,098) | (83.53)% | (80.75)% |
| Gains on Other Operations | - | - | - | - | - | - | 7,108 | - | 7,108 | 100.00% | 100.00% |
| Gains on Disposal of Property, Plant and Equipment | 80,000 | - | 80,000 | - | - | 80,000 | 164,092 | - | 84,092 | 105.12% | 105.12% |
| Total Revenue | 222,752,000 | (28,582,000) | 194,170,000 | - | - | 194,170,000 | 193,688,171 | - | (481,829) | | |
| Expenditure | | | | | | | | | | | |
| Employee Related Costs | 59,618,000 | 1,422,000 | 61,040,000 | - | - | 61,040,000 | 59,893,633 | - | (1,146,367) | (1.88)% | 0.46% |
| Remuneration of Councillors | 3,918,000 | 237,000 | 4,155,000 | - | - | 4,155,000 | 4,157,184 | - | 2,184 | 0.05% | 6.10% |
| Collection Costs | - | - | - | - | - | - | - | - | - | - | - |
| Depreciation and Amortisation | 8,479,000 | (10,000) | 8,469,000 | - | - | 8,469,000 | 68,118,102 | - | 59,649,102 | 704.32% | 703.37% |
| Impairment Losses | 8,627,000 | - | 8,627,000 | - | - | 8,627,000 | 43,186,035 | - | 34,559,035 | 400.59% | 400.59% |
| Repairs and Maintenance | 8,178,000 | 31,000 | 8,209,000 | - | - | 8,209,000 | 11,610,873 | - | 3,401,873 | 41.44% | 41.98% |
| Finance Costs | 933,000 | 97,000 | 1,030,000 | - | - | 1,030,000 | 1,607,928 | - | 577,928 | 56.11% | 72.34% |
| Bulk Purchases | 44,159,000 | (2,154,000) | 42,005,000 | - | - | 42,005,000 | 43,535,580 | - | 1,530,580 | 3.64% | (1.41)% |
| Contracted Services | 7,026,000 | (1,726,000) | 5,300,000 | - | - | 5,300,000 | 7,227,685 | - | 1,927,685 | 36.37% | 2.87% |
| Grants and Subsidies Paid | 12,422,000 | 2,508,000 | 14,930,000 | - | - | 14,930,000 | 750,004 | - | (14,179,996) | (94.98)% | (93.96)% |
| General Expenses | 32,649,000 | (2,719,000) | 29,930,000 | - | - | 29,930,000 | 19,672,718 | - | (10,257,282) | (34.27)% | (39.74)% |
| Inventory Written-off | - | - | - | - | - | - | 66,661 | - | 66,661 | 100.00% | 100.00% |
| Loss on Sale of Land | - | - | - | - | - | - | 69,756 | - | 69,756 | 100.00% | 100.00% |
| Total Expenditure | 186,009,000 | (2,314,000) | 183,695,000 | - | - | 183,695,000 | 259,896,161 | - | 76,201,161 | | |
| Surplus/(Deficit) | 36,743,000 | (26,268,000) | 10,475,000 | - | - | 10,475,000 | (66,207,989) | - | (76,682,989) | (732.06)% | (280.19)% |
| Surplus/(Deficit for the Year) | 36,743,000 | (26,268,000) | 10,475,000 | - | - | 10,475,000 | (66,207,989) | - | (76,682,989) | | |
| | | | | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

The Property Rates - Penalties is budgeted for with Interest Received. The current classification in the Annual Financial Statements is a GRAP requirement and has therefore been split as such.

Property Rates - Penalties imposed and collection charges:

For the 2013/2014 financial year, all fines (irrespective whether they are recoverable) were recognised. The relating debtor was tested for impairment in order to reflect the recoverable amount at yearend.

Fines:

For the 2013/2014 financial year, all fines (irrespective whether they are recoverable) were recognised. The relating debtor was tested for impairment in order to reflect the recoverable amount at yearend.

Rental of Facilities and Equipment:

The municipality generated more revenue than budgeted for.

Interest Earned (all financial statement line items)

Improved cash management and diversification of available cash. This is supported in the increase in the Cash and Cash Equivalents balance.

Other Income:

In the 2011/2012 financial year, preliminary figures showed a decrease in the provision for doubtful debt (reversal). This was taken into account during the preparation of the 2013/2014 budget as the 2012/2013 provision (and relating entries) were not calculated (and processed). This did however not realise and resulted in the material fluctuation. Furthermore, the revenue generated from prepaid electricity has been correctly classified.

Gains on Other Operations:

Due to the fair value adjustment made to Non-current Investments which were not anticipated and budgeted for.

Depreciation and Amortisation:

Due to the gross depreciation effect. The budget reflects

Impairment Losses:

The provision for doubtful debt significantly increased during the year, due to the weaker payment (receipt) ratios calculated on each individual debtor. Additional to this, management recognised all fines issued during the year and this debtor was impaired with R19 895 792.

Grants and Subsidies Paid:

The budgeted figure includes all capital expenditure, which has been reclassified to the correct financial statement line items.

Loss on Disposal of Property, Plant and Equipment:

The Municipality conducted a full land audit (please see the explanation included in the Inventory line item). During the year, a number of properties were transferred to buyers.

Inventory Written-off

The amount written-off is immaterial and therefore management did not budget for it.

2014

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|-------------------|-------------------|-----------------------------|----------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| CAPITAL EXPENDITURE PER FUNCTION | | | | | | | | | | | |
| Executive and Council | 221,000 | 277,000 | 498,000 | - | - | 498,000 | 585,487 | - | 87,487 | 17.57% | 164.93% |
| Finance and Administration | 1,959,000 | - | 1,959,000 | - | - | 1,959,000 | 199,452 | - | (1,759,548) | (89.82)% | (89.82)% |
| Planning and Development | 15,344,000 | (3,500,000) | 11,844,000 | - | - | 11,844,000 | 499,643 | - | (11,344,357) | (95.78)% | (96.74)% |
| Health | 21,000 | - | 21,000 | - | - | 21,000 | - | - | (21,000) | (100.00)% | (100.00)% |
| Community and Social Services | 728,000 | 16,000 | 744,000 | - | - | 744,000 | 62,903 | - | (681,097) | (91.55)% | (91.36)% |
| Housing | - | - | - | - | - | - | 713,769 | - | 713,769 | 100.00% | 100.00% |
| Public Safety | 510,000 | - | 510,000 | - | - | 510,000 | - | - | (510,000) | (100.00)% | (100.00)% |
| Sport and Recreation | 101,000 | - | 101,000 | - | - | 101,000 | - | - | (101,000) | (100.00)% | (100.00)% |
| Environmental Protection | - | - | - | - | - | - | - | - | - | - | - |
| Waste Management | 55,000 | 302,000 | 357,000 | - | - | 357,000 | - | - | (357,000) | (100.00)% | (100.00)% |
| Roads and Transport | 3,519,000 | (300,000) | 3,219,000 | - | - | 3,219,000 | 15,401,315 | - | 12,182,315 | 378.45% | 337.66% |
| Water | 21,076,000 | (20,000,000) | 1,076,000 | - | - | 1,076,000 | 1,681,260 | - | 605,260 | 56.25% | (92.02)% |
| Electricity | 505,000 | - | 505,000 | - | - | 505,000 | 2,313,622 | - | 1,808,622 | 358.14% | 358.14% |
| Total Capital Expenditure | 44,039,000 | (23,205,000) | 20,834,000 | - | - | 20,834,000 | 21,457,449 | - | 623,449 | | |

Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual

Overall, the fluctuations amounted to +/- 3%. Although the budgeted amounts made provision for costs to be incurred in more departments, these funds were used to, mainly, finance the roads and stormwater project currently in progress at yearend.

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

2014

| Description | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|------------------|---------------------|-----------------------------|---------------------|---|--|
| | R | R | R | R | R | R | R | R | R | R | R |
| CASH FLOW | | | | | | | | | | | |
| Cash Flows from/(used in) Operating Activities | | | | | | | | | | | |
| Property Rates | 125,172,000 | 13,935,000 | 139,107,000 | - | - | 139,107,000 | 17,407,400 | - | (121,699,600) | (87.49)% | (86.09)% |
| Grants | 76,938,000 | (23,561,000) | 53,377,000 | - | - | 53,377,000 | 53,829,613 | - | 452,613 | 0.85% | (30.04)% |
| Service Charges | - | - | - | - | - | - | 86,505,562 | - | 86,505,562 | 100.00% | 100.00% |
| Interest Received | 793,000 | 76,000 | 869,000 | - | - | 869,000 | 1,030,475 | - | 161,475 | 18.58% | 29.95% |
| Other Receipts | 1,000 | 239,000 | 240,000 | - | - | 240,000 | (2,789,785) | - | (3,029,785) | (1262.41)% | (279078.47)% |
| Employee Related Costs | (128,441,000) | (19,960,000) | (148,401,000) | - | - | (148,401,000) | (56,840,637) | - | 91,560,363 | (61.70)% | (55.75)% |
| Remuneration of Councillors | - | - | - | - | - | - | (4,157,184) | - | (4,157,184) | (100.00)% | (100.00)% |
| Interest Paid | (933,000) | (97,000) | (1,030,000) | - | - | (1,030,000) | (1,607,928) | - | (577,928) | 56.11% | 72.34% |
| Suppliers Paid | - | - | - | - | - | - | (83,052,723) | - | (83,052,723) | (100.00)% | (100.00)% |
| Other Payments | (13,573,000) | (1,357,000) | (14,930,000) | - | - | (14,930,000) | 2,333,858 | - | 17,263,858 | (115.63)% | (117.19)% |
| Cash Flows from/(used in) Investing Activities | | | | | | | | | | | |
| Purchase of Property, Plant and Equipment | (20,806,000) | 68,000 | (20,738,000) | - | - | (20,738,000) | (21,458,762) | - | (720,762) | 3.48% | 3.14% |
| Purchase of Intangible Assets | - | - | - | - | - | - | (92,919) | - | (92,919) | (100.00)% | (100.00)% |
| Proceeds on Disposal of Property, Plant and Equipment | - | - | - | - | - | - | 519,161 | - | 519,161 | 100.00% | 100.00% |
| Profit on Sale of Land | - | - | - | - | - | - | 470,543 | - | 470,543 | 100.00% | 100.00% |
| Cash Flows from/(used in) Financing Activities | | | | | | | | | | | |
| New Loans raised | (2,538,000) | - | (2,538,000) | - | - | (2,538,000) | (2,503,720) | - | 34,280 | (1.35)% | (1.35)% |
| Loans repaid | 111,000 | - | 111,000 | - | - | 111,000 | - | - | (111,000) | (100.00)% | (100.00)% |
| Cash and Cash Equivalents at End of the Year | 36,724,000 | (30,657,000) | 6,067,000 | - | - | 6,067,000 | (10,407,047) | - | (16,474,047) | - | - |
| Cash Flow: Explanation of Variances between Approved Budget and Actual | | | | | | | | | | | |
| Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below: | | | | | | | | | | | |
| Debt collection did not have the desired results, which resulted in the fluctuation. This is supported by the fluctuations identified in the Statement of Financial Performance and Position. | | | | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE:

| Description | 2015 | 2014 |
|---|---------------------|---------------------|
| | R | R |
| Net Surplus/(Deficit) per the Statement of Financial Performance | (43,470,691) | (66,207,989) |
| Revenue from Non-exchange Transactions | | |
| Property Rates | 1,879,932 | 337,531 |
| Property Rates - Penalties imposed and collection charges | (170,342) | (149,924) |
| Fines | (17,853,475) | (10,120,701) |
| Licences and Permits | 617,070 | (74,582) |
| Government Grants and Subsidies Received | (1,902,255) | (5,476,606) |
| Revenue from Exchange Transactions | | |
| Service Charges | (1,376,808) | 78,184 |
| Rental of Facilities and Equipment | (586,905) | (218,144) |
| Interest Earned - External Investments | (10,399) | (237,475) |
| Interest Earned - Outstanding Debtors | 173,239 | 114,648 |
| Other Revenue | 11,879,962 | 16,320,098 |
| Gains on Other Operations | (4,551) | (7,108) |
| Gains on Disposal of Property, Plant and Equipment | 120,000 | (84,092) |
| Profit on Sale of Land | (978,624) | - |
| Expenditure | | |
| Employee Related Costs | 3,899,269 | (1,146,367) |
| Remuneration of Councillors | (134,541) | 2,184 |
| Collection Costs | 283,077 | - |
| Depreciation and Amortisation | 53,496,887 | 59,649,102 |
| Impairment Losses | 20,394,130 | 34,559,035 |
| Repairs and Maintenance | 2,864,814 | 3,401,873 |
| Finance Costs | (1,193,450) | 577,928 |
| Bulk Purchases | (480,345) | 1,530,580 |
| Contracted Services | (470,587) | 1,927,685 |
| Grants and Subsidies Paid | (13,443,534) | (14,179,996) |
| General Expenses | (13,680,100) | (10,257,282) |
| Inventory Written-off | - | 66,661 |
| Loss on Sale of Land | 744,226 | 69,756 |
| Net Surplus/Deficit per Approved Budget | 596,000 | 10,475,000 |

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1.1 Changes In Accounting Policy And Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2014 and 30 June 2013, the Municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The Municipality changes an Accounting Policy only in the following instances:

- (a) if it is required by a Standard of GRAP; or
- (b) when it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1.2 Critical Judgements, Estimations And Assumptions

In the application of the Municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the Municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 13.2 on Revenue from Exchange Transactions and Accounting Policy 13.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 9.1 on Financial Assets Classification and Accounting Policy 9.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the Municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

1.2.3 Impairment of Financial Assets

Accounting Policy 9.4 on Impairment of Financial Assets describes the process followed to determine the value at which financial assets should be impaired. In making the estimation of the impairment, the management of the Municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the Municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions is disclosed in note 5 to the AFS.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. BASIS OF PRESENTATION (Continued)

1.2.4 Useful lives of Property, Plant and Equipment, Intangible assets, Investment property and Heritage assets

As described in Accounting Policies 3.3, 5.2 and 6.2 the Municipality depreciates its property, plant and equipment, investment property, heritage assets and amortises its intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.2.5 Impairment: Write down of Property, Plant and Equipment, Investment property, Intangible assets, Heritage assets and Inventories

Accounting Policy 8 on Impairment of assets Accounting Policy 11.2 on Inventory - Subsequent measurement describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the Municipality. Significant estimates and judgements are made relating to property, plant and equipment impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of non-Cash generating Assets and GRAP 26: Impairment of Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the Net Realisable Value for inventories involves significant judgment by management. During the year the estimated impairments to property, plant and equipment made are disclosed in note 10 to the AFS, whilst no impairments were made to intangible assets or inventory.

1.2.6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir. Furthermore the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Note 2 of the accounting policy to the Annual Financial Statements.

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the Municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the Municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 21 to the Annual Financial Statements.

1.2.8 Provisions and contingent liabilities

Provision for Rehabilitation of Refuse Landfill Sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 6% (2013: 6%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 5.5% (2013: 5.5%).
- b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 5.5% (2013: 5.5%).

1.2.9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the Municipality's functional currency.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. BASIS OF PRESENTATION (Continued)

1.6 Standards, Amendments To Standards And Interpretations Issued But Not Yet Effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 20 Related Party Disclosures (Revised)
GRAP 32 Service Concession Arrangement Grantor
GRAP 105 Transfers between entities under common control - issued November 2010
GRAP 106 Transfers between entities not under common control - issued November 2010
GRAP 107 Mergers - issued November 2010
GRAP 108 Statutory Receivables

The Minister of Finance announced that the application of GRAP 25 for period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:
Related Parties - GRAP 20

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the Municipality.

2. NETT ASSETS

Included in the nett assets of the Municipality, are the following reserves that are maintained in terms of specific requirements:

2.1.1 Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
 - The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
 - Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
 - If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
- Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition property, plant and equipment are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

An increase in the carrying amount of property, plant and equipment as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in the Statement of Financial Performance, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to the Statement of Changes in Net Assets.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

3.3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the Municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

| | Years | | Years |
|-------------------------|----------|------------------------------------|-----------------|
| Infrastructure | | Buildings | 30 - 100 |
| Roads and Paving | 45 - 50 | | |
| Electricity | 45 - 50 | Other | |
| Water | 15 - 100 | Specialist Vehicles | 5 - 20 |
| Sewerage | 15 - 100 | Other Vehicles | 5 - 10 |
| Landfill Sites | 10 - 65 | Office Equipment | 3 - 7 |
| | | Furniture and Fittings | 7 - 10 |
| Community | | Watercraft | 15 |
| Recreational Facilities | 15 - 60 | Bins and Containers | 5 |
| Security | 5 | Specialised Plant and Equipment | 10 - 15 |
| | | Other items of Plant and Equipment | 2 - 5 |

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the Municipality will obtain ownership by the end of the lease term.

3.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3.7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the Municipality in terms of the asset management policy.

3.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the Statement of Financial Performance when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

4. HERITAGE ASSETS

An heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

4.1 Initial Recognition

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

4.2 Subsequent Measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses. Heritage assets are not depreciated.

4.3 Derecognition of Heritage assets

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

5. INTANGIBLE ASSETS

5.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

5.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, intangible assets are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

| Intangible asset | Years |
|-------------------------|--------------|
| Software | 3 |

Intangible assets are annually tested for impairment, including intangible assets not yet available for use, as per Accounting Policy 8: *Impairment of assets*. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

5.3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

6. INVESTMENT PROPERTY

6.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the Municipality);
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties; and
- Property that is being constructed or developed for future use as investment property;

6.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in the Statement of Financial Performance for the period in which it arises.

6.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

7. IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

7.1 Impairment of Cash generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

7. IMPAIRMENT OF ASSETS (Continued)

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

7.2 Impairment of Non-Cash generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

(i) to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

8. FINANCIAL INSTRUMENTS

The Municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The Municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

8. FINANCIAL INSTRUMENTS (Continued)

8.1 Financial Assets - Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the Municipality are classified as follows into the three categories allowed by this standard:

- Financial Asset at fair value
- Financial Asset at fair amortised cost
- Financial Asset at cost

Financial asset at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

- (a) derivatives;
- (b) combined instruments that are designated at fair value
- (c) instruments held for trading.
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The Municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

| Type of Financial Asset | Classification in terms of GRAP 104 |
|---------------------------------------|-------------------------------------|
| Short-term Investment Deposits – Call | Financial asset at amortised cost |
| Bank Balances and Cash | Financial asset at amortised cost |
| Long-term Receivables | Financial asset at amortised cost |
| Consumer Debtors | Financial asset at amortised cost |
| Other Debtors | Financial asset at amortised cost |
| Investments in Fixed Deposits | Financial asset at amortised cost |

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

8.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

The Municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

| Type of Financial Liabilities | Classification in terms of GRAP 104 |
|--|---------------------------------------|
| Long term Liabilities | Financial liability at amortised cost |
| Other Creditors | Financial liability at amortised cost |
| Bank overdraft | Financial liability at amortised cost |
| Short-term Loans | Financial liability at amortised cost |
| Current portion of Long-Term Liabilities | Financial liability at amortised cost |

Financial liabilities that are measured at fair value financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

8. FINANCIAL INSTRUMENTS (Continued)

8.3 Initial and Subsequent Measurement

8.3.1 Financial Assets:

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial asset at amortised cost.

Financial Assets measured at fair value are initially measured at fair value excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

8.3.2 Financial Liabilities:

Financial liabilities measured at fair value

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities measured at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

8.4 Impairment of Financial Assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Accounts receivable encompasses long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

8. FINANCIAL INSTRUMENTS (Continued)

Impairment of Financial Assets measured at cost

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

8.5 Derecognition of Financial Assets

The Municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the Municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the Municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

8.6 Derecognition of Financial Liabilities

The Municipality derecognises Financial Liabilities when, and only when, the Municipality's obligations are discharged, cancelled or they expire.

The Municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

9. INVENTORIES

9.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

9.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). The cost is determined using the (FIFO / weighted average) cost of commodities.

Water inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a FIFO cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9. INVENTORIES (Continued)

Redundant and slow-moving inventories

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

10. NON-CURRENT ASSETS HELD-FOR-SALE

10.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

10.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

11. REVENUE RECOGNITION

11.1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

11. REVENUE RECOGNITION (Continued)

11.2 Revenue from Exchange Transactions

11.2.1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

11.2.2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

11.2.3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

11.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licenses and permits.

11.2.5 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

11.2.6 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The Municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

11.2.7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

11.2.8 Dividends

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

11. REVENUE RECOGNITION (Continued)

11.3 Revenue from Non-exchange Transactions

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the Municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

11.3.1 Rates And Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

11.3.2 Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the entity and the amount of the revenue can be measured reliably.

Fines consist of spot fines and summonses. Revenue for fines is recognised when the fine is issued at the full amount of the receivable.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

11.3.3 Government Grants And Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional Grants and receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

11.3.4 Revenue From Recovery of Unauthorised, Irregular, Fruitless And Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

12. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

12. PROVISIONS (Continued)

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

13. EMPLOYEE BENEFITS

13.1 Short-Term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The Municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The Municipality recognises the expected cost of performance bonuses only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13.2 Post-Employment Benefits

The Municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

13.2.1 Defined Contribution Plans

A defined contribution plan is a plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The Municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13.2.2 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

13.3 Post-Retirement Health Care Benefits:

The Municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the Municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

13.4 Long-Service Allowance

The Municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the Municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

13. EMPLOYEE BENEFITS (Continued)

13.5 Defined Benefit Pension Plans

The Municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

The Municipality changed its accounting policy from IAS 19 to GRAP 25 with no effect on the financial information disclosed previously.

14. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

14.1 The Municipality As Lessee

Finance leases

Where the Municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The Municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14.2 The Municipality As Lessor

Amounts due from lessees under finance leases or installment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

14. LEASES (Continued)

14.3 Determining Whether An Arrangement Contains A Lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

15. BORROWING COSTS

The Municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance in accordance with the requirements of GRAP 5. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The Municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16. GRANTS-IN-AID

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the Municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

17. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

18. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

19. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 40 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the Municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 41 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

22. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The Municipality changed its accounting policy from IPSAS 20 to GRAP 20 with no effect on the financial information disclosed previously.

23. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

24. COMPARATIVE INFORMATION

24.1 Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

24.2 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or under spending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2013 to 30 June 2014.

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

26. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

EMTHANJENI LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

27. CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the Municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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2015
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1. GENERAL INFORMATION

Emthanjeni Municipality (the Municipality) is a local government institution in De Aar, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley-ka-Seme District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the Municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

| | | |
|--------------------------|--------------------------|--------------------------|
| Consumable Stores | 390,655 | 417,715 |
| Property Stock | 62,551,954 | 62,625,954 |
| Water - at cost | 19,905 | 15,692 |
| Total Inventories | <u>62,962,514</u> | <u>63,059,361</u> |

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to R0.8361 per kilolitre (2014: R0.7632 per kilolitre).

Inventory to the value of R0 (2014: R69 007) was written off during the year. The cost of Inventories recognised as an expense during the period was R308 212.

No Inventories have been pledged as collateral for Liabilities of the Municipality.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

| | Gross Balances R | Provision for Impairment R | Net Balances R |
|---|---------------------------------|---|-------------------------------|
| As at 30 June 2015 | | | |
| Service Debtors: | 90,361,203 | (58,611,672) | 31,749,531 |
| Electricity | 19,115,439 | (9,309,513) | 9,805,926 |
| Refuse | 11,144,533 | (7,618,761) | 3,525,772 |
| Sewerage | 21,898,513 | (15,301,184) | 6,597,328 |
| Water | 38,202,719 | (26,382,214) | 11,820,505 |
| Other Receivables | 3,407,997 | (3,239,359) | 168,638 |
| Total Receivables from Exchange Transactions | <u>93,769,200</u> | <u>(61,851,031)</u> | <u>31,918,169</u> |

| | Gross Balances R | Provision for Impairment R | Net Balances R |
|---|---------------------------------|---|-------------------------------|
| As at 30 June 2014 | | | |
| Service Debtors: | 72,971,804 | (43,377,241) | 29,594,563 |
| Electricity | 17,064,209 | (6,845,832) | 10,218,377 |
| Refuse | 8,919,664 | (5,850,844) | 3,068,820 |
| Sewerage | 17,452,740 | (11,399,087) | 6,053,654 |
| Water | 29,535,190 | (19,281,478) | 10,253,713 |
| Other Receivables | 2,835,398 | (1,943,540) | 891,858 |
| Total Receivables from Exchange Transactions | <u>75,807,201</u> | <u>(45,320,781)</u> | <u>30,486,421</u> |

Other Receivables include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The Municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The Municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

At 30 June 2015, the Municipality is owed R3 916 652 (30 June 2014: R4 386 769) by National and Provincial Government.

The Municipality did not pledge any of its Receivables as security for borrowing purposes.

The Management of the Municipality is of the opinion that the carrying value of Receivables approximate their fair values.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2015

| | Current 0 - 30 days | Past Due | | | Total |
|--------------------------------|------------------------|----------------|----------------|------------------|-------------------|
| | | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Electricity: | | | | | |
| Gross Balances | 5,014,131 | 731,327 | 495,286 | 12,874,696 | 19,115,439 |
| Less: Provision for Impairment | (521,681) | (306,757) | (232,511) | (8,248,563) | (9,309,513) |
| Net Balances | 4,492,449 | 424,569 | 262,775 | 4,626,133 | 9,805,926 |
| Refuse: | | | | | |
| Gross Balances | 462,260 | 339,047 | 262,777 | 10,080,448 | 11,144,533 |
| Less: Provision for Impairment | (206,078) | (214,075) | (177,331) | (7,021,277) | (7,618,761) |
| Net Balances | 256,182 | 124,973 | 85,446 | 3,059,171 | 3,525,772 |
| Sewerage: | | | | | |
| Gross Balances | 850,334 | 514,011 | 478,626 | 20,055,542 | 21,898,513 |
| Less: Provision for Impairment | (369,954) | (345,574) | (337,544) | (14,248,113) | (15,301,184) |
| Net Balances | 480,380 | 168,437 | 141,083 | 5,807,430 | 6,597,328 |
| Water: | | | | | |
| Gross Balances | 2,664,198 | 1,007,316 | 1,014,235 | 33,516,969 | 38,202,719 |
| Less: Provision for Impairment | (759,376) | (690,727) | (682,571) | (24,249,539) | (26,382,214) |
| Net Balances | 1,904,821 | 316,589 | 331,664 | 9,267,430 | 11,820,505 |
| Other Receivables: | | | | | |
| Gross Balances | 106,843 | 60,068 | 54,168 | 3,186,919 | 3,407,997 |
| Less: Provision for Impairment | (55,988) | (52,247) | (51,231) | (3,079,893) | (3,239,359) |
| Net Balances | 50,854 | 7,821 | 2,937 | 107,026 | 168,638 |

As at 30 June Receivables of R24 733 483 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due | | | Total |
|--------------------------------|------------------|----------------|-------------------|-------------------|
| | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| All Receivables: | | | | |
| Gross Balances | 2,651,768 | 2,305,092 | 79,714,575 | 84,671,435 |
| Less: Provision for Impairment | (1,609,380) | (1,481,187) | (56,847,385) | (59,937,952) |
| Net Balances | 1,042,389 | 823,905 | 22,867,190 | 24,733,483 |

As at 30 June 2014

| | Current 0 - 30 days | Past Due | | | Total |
|--------------------------------|------------------------|----------------|----------------|------------------|-------------------|
| | | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Electricity: | | | | | |
| Gross Balances | 4,756,157 | 628,731 | 516,369 | 11,162,952 | 17,064,209 |
| Less: Provision for Impairment | (317,488) | (218,614) | (208,573) | (6,101,157) | (6,845,832) |
| Net Balances | 4,438,669 | 410,117 | 307,795 | 5,061,795 | 10,218,377 |
| Refuse: | | | | | |
| Gross Balances | 578,600 | 292,155 | 273,455 | 7,775,455 | 8,919,664 |
| Less: Provision for Impairment | (199,875) | (158,243) | (158,336) | (5,334,389) | (5,850,844) |
| Net Balances | 378,724 | 133,911 | 115,119 | 2,441,066 | 3,068,820 |
| Sewerage: | | | | | |
| Gross Balances | 845,810 | 499,364 | 478,230 | 15,629,336 | 17,452,740 |
| Less: Provision for Impairment | (290,942) | (284,326) | (285,913) | (10,537,906) | (11,399,087) |
| Net Balances | 554,869 | 215,038 | 192,317 | 5,091,430 | 6,053,654 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

Water:

| | | | | | |
|--------------------------------|------------------|----------------|----------------|------------------|-------------------|
| Gross Balances | 2,499,297 | 1,071,971 | 1,009,232 | 24,954,690 | 29,535,190 |
| Less: Provision for Impairment | (709,380) | (675,492) | (721,512) | (17,175,093) | (19,281,478) |
| Net Balances | 1,789,917 | 396,479 | 287,720 | 7,779,597 | 10,253,713 |

Other Receivables:

| | | | | | |
|--------------------------------|---------------|---------------|---------------|----------------|----------------|
| Gross Balances | 105,795 | 60,464 | 56,360 | 2,612,779 | 2,835,397 |
| Less: Provision for Impairment | (40,203) | (38,317) | (38,288) | (1,826,731) | (1,943,540) |
| Net Balances | 65,592 | 22,147 | 18,072 | 786,047 | 891,858 |

As at 30 June Receivables of R23 258 650 were past due but not impaired. The age analysis of these Receivables are as follows:

| Past Due | | | Total |
|--------------|--------------|-----------|-------|
| 31 - 60 Days | 61 - 90 Days | + 90 Days | |

All Receivables:

| | | | | |
|--------------------------------|------------------|----------------|-------------------|-------------------|
| Gross Balances | 2,552,684 | 2,333,646 | 62,135,212 | 67,021,542 |
| Less: Provision for Impairment | (1,374,993) | (1,412,623) | (40,975,276) | (43,762,892) |
| Net Balances | 1,177,691 | 921,023 | 21,159,936 | 23,258,650 |

3.2 Summary of Receivables from Exchange Transactions by Customer Classification

| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
|---|-------------------|--------------------------------|---|------------|
| As at 30 June 2015 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 6,355,426 | 1,422,961 | 1,319,379 | - |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 2,255,330 | 230,317 | 166,122 | - |
| 61 - 90 Days | 2,050,152 | 120,196 | 134,744 | - |
| + 90 Days | 75,445,055 | 1,973,112 | 2,296,408 | - |
| Sub-total | 86,105,962 | 3,746,587 | 3,916,652 | - |
| Less: Provision for Impairment | (60,066,504) | (1,784,526) | - | - |
| Total Trade Receivables by Customer Classification | 26,039,457 | 1,962,060 | 3,916,652 | - |

| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
|---|-------------------|--------------------------------|---|------------|
| As at 30 June 2014 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 6,929,183 | 1,209,461 | 647,015 | - |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 2,041,406 | 202,492 | 308,787 | - |
| 61 - 90 Days | 2,003,191 | 131,829 | 198,625 | - |
| + 90 Days | 56,933,287 | 1,969,582 | 3,232,342 | - |
| Sub-total | 67,907,067 | 3,513,365 | 4,386,769 | - |
| Less: Provision for Impairment | (43,910,382) | (1,410,398) | - | - |
| Total Trade Receivables by Customer Classification | 23,996,685 | 2,102,967 | 4,386,769 | - |

3.3 Reconciliation of the Provision for Impairment

| | | |
|-------------------------------|---------------------|---------------------|
| Balance at beginning of year | (45,320,780) | (34,004,000) |
| Impairment Losses recognised | (16,530,251) | (30,794,688) |
| Impairment Losses reversed | - | 19,477,908 |
| Balance at end of year | (61,851,031) | (45,320,780) |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2015 R |
|--|-------------------|-------------------|
| 3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued) | | |
| In determining the recoverability of Receivables, the Municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment. | | |
| Included in the Municipality's Receivables balance are debtors with a carrying amount of R24 733 483 (2014: R23 258 650) which are past due at the reporting date for which the Municipality has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Municipality holds collateral over these balances in the form of Consumer Deposits (see Note 13), which are not covering the total outstanding debt. The average age of these receivables is 119 days (2014: 124 days). | | |
| No provision has been made in respect of Government Debt as these amounts are considered to be fully recoverable. The Municipality holds collateral over these balances in the form of Consumer Deposits, which are not covering the total outstanding debt and vacant property respectively. | | |
| 3.4 Ageing of impaired Receivables from Exchange Transactions | | |
| <u>Current:</u> | | |
| 0 - 30 Days | 1,913,079 | 1,557,888 |
| <u>Past Due:</u> | | |
| 31 - 60 Days | 1,609,380 | 1,374,993 |
| 61 - 90 Days | 1,481,187 | 1,412,623 |
| + 90 Days | 56,847,385 | 40,975,276 |
| Total | 61,851,031 | 45,320,781 |

3.5 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

| | Gross Balances R | Provision for Impairment R | Net Balances R |
|---|------------------------|----------------------------------|----------------------|
| As at 30 June 2015 | | | |
| Assessment Rates Debtors | 16,914,817 | (10,499,979) | 6,414,837 |
| Payments made in Advance | - | - | - |
| Sundry Deposits | 985,250 | - | 985,250 |
| Sundry Debtors | 42,617,516 | (28,071,716) | 14,545,800 |
| Total Receivables from Non-exchange Transactions | 60,517,582 | (38,571,695) | 21,945,887 |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2014 | | | |
| Assessment Rates Debtors | 13,518,534 | (7,067,368) | 6,451,166 |
| Payments made in Advance | 74,698 | - | 74,698 |
| Sundry Deposits | 1,014,610 | - | 1,014,610 |
| Sundry Debtors | 22,515,878 | (15,757,419) | 6,758,459 |
| Total Receivables from Non-exchange Transactions | 37,123,720 | (22,824,787) | 14,298,933 |

Sundry Deposits are in respect of cash deposits made to Eskom for the supply of electricity and cash deposits made to various fuel stations. Included in the total is an amount of R900 000 (2014: R900 000) in respect of a deposit paid to Eskom.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the Municipality.

The average credit period for Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the Municipality's banker, plus one percent per annum on the outstanding balance. The Municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2015
R

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)

The Municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the Municipality's financial liabilities.

The Management of the Municipality is of the opinion that the carrying value of Receivables approximate their fair values.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2015

| | Current | Past Due | | | Total |
|----------------------------------|------------------|----------------|------------------|------------------|-------------------|
| | 0 - 30 days | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Assessment Rates: | | | | | |
| Gross Balances | 856,868 | 378,255 | 315,213 | 15,364,480 | 16,914,817 |
| Less: Provision for Impairment | (96,383) | (152,775) | (139,786) | (10,111,035) | (10,499,979) |
| Net Balances | 760,486 | 225,480 | 175,428 | 5,253,445 | 6,414,837 |
| Payments made in Advance: | | | | | |
| Gross Balances | - | - | - | - | - |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | - | - | - | - | - |
| Sundry Deposits: | | | | | |
| Gross Balances | - | - | - | 985,250 | 985,250 |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | - | - | - | 985,250 | 985,250 |
| Sundry Debtors: | | | | | |
| Gross Balances | 1,396,255 | 810,490 | 2,416,450 | 37,994,321 | 42,617,516 |
| Less: Provision for Impairment | - | - | - | (28,071,716) | (28,071,716) |
| Net Balances | 1,396,255 | 810,490 | 2,416,450 | 9,922,605 | 14,545,800 |

As at 30 June Receivables of R19 789 147 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due | | | Total |
|--------------------------------|------------------|------------------|-------------------|-------------------|
| | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| All Receivables: | | | | |
| Gross Balances | 1,188,745 | 2,731,663 | 54,344,051 | 58,264,459 |
| Less: Provision for Impairment | (152,775) | (139,786) | (38,182,751) | (38,475,312) |
| Net Balances | 1,035,970 | 2,591,878 | 16,161,299 | 19,789,147 |

As at 30 June 2014

| | Current | Past Due | | | Total |
|----------------------------------|----------------|----------------|----------------|------------------|------------------|
| | 0 - 30 days | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Assessment Rates: | | | | | |
| Gross Balances | 928,461 | 341,548 | 297,148 | 11,951,377 | 13,518,534 |
| Less: Provision for Impairment | (129,195) | (125,964) | (116,372) | (6,695,837) | (7,067,368) |
| Net Balances | 799,266 | 215,584 | 180,776 | 5,255,540 | 6,451,166 |
| Payments made in Advance: | | | | | |
| Gross Balances | 74,698 | - | - | - | 74,698 |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | 74,698 | - | - | - | 74,698 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | | | | 2015 R | 2015 R |
|--|----------------|----------|----------|------------------|------------------|
| 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued) | | | | | |
| Sundry Deposits: | | | | | |
| Gross Balances | 900,000 | - | - | 114,610 | 1,014,610 |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | 900,000 | - | - | 114,610 | 1,014,610 |
| Sundry Debtors: | | | | | |
| Gross Balances | 979,280 | - | - | 21,536,598 | 22,515,878 |
| Less: Provision for Impairment | - | - | - | (15,757,419) | (15,757,419) |
| Net Balances | 979,280 | - | - | 5,779,179 | 6,758,459 |

As at 30 June Receivables of R11 545 689 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due | | | Total |
|--------------------------------|---------------------|---------------------|-------------------|-------------------|
| | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| All Receivables: | | | | |
| Gross Balances | 341,548 | 297,148 | 33,602,586 | 34,241,282 |
| Less: Provision for Impairment | (125,964) | (116,372) | (22,453,256) | (22,695,593) |
| Net Balances | 215,584 | 180,776 | 11,149,329 | 11,545,689 |

4.2 Summary of Assessment Rates Debtors by Customer Classification

| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
|---|------------------------|---|---|--------------------|
| As at 30 June 2015 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 680,140 | 72,963 | 103,765 | - |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 257,551 | 14,397 | 106,307 | - |
| 61 - 90 Days | 207,904 | 11,148 | 96,161 | - |
| + 90 Days | 13,426,101 | 807,033 | 1,131,346 | - |
| Sub-total | 14,571,696 | 905,541 | 1,437,579 | - |
| Less: Provision for Impairment | (10,024,862) | (475,117) | - | - |
| Total Rates Debtors by Customer Classification | 4,546,834 | 430,424 | 1,437,579 | - |
| | | | | |
| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
| As at 30 June 2014 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 756,558 | 53,540 | 118,363 | - |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 228,778 | 10,419 | 102,351 | - |
| 61 - 90 Days | 184,601 | 10,419 | 102,128 | - |
| + 90 Days | 10,602,361 | 592,557 | 756,459 | - |
| Sub-total | 11,772,297 | 666,936 | 1,079,301 | - |
| Less: Provision for Impairment | (6,696,334) | (371,034) | - | - |
| Total Rates Debtors by Customer Classification | 5,075,963 | 295,902 | 1,079,301 | - |

4.3 Reconciliation of Provision for Impairment

| | | |
|--------------------------------------|---------------------|---------------------|
| Balance at beginning of year | (22,824,787) | (14,423,184) |
| Impairment Losses recognised | (15,746,908) | (8,401,603) |
| Impairment Losses reversed | - | - |
| Amounts written off as uncollectable | - | - |
| Amounts recovered | - | - |
| Balance at end of year | (38,571,695) | (22,824,787) |

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2015 R |
|--|----------------------------|----------------------------|
| 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued) | | |
| <p>In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the Municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.</p> <p>No Provision for Impairment has been made in respect of Government Debt as these amounts are considered to be fully recoverable. The Municipality holds collateral over these balances in the form of Rates Assessment Deposits, which are not covering the total outstanding debt and vacant property respectively.</p> <p>Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.</p> | | |
| 5. CASH AND CASH EQUIVALENTS | | |
| Current Investments | 12,186,030 | 11,294,795 |
| Bank Accounts | 95,714 | 915,409 |
| Bank Overdraft | (13,564,441) | (11,977,403) |
| Total Bank, Cash and Cash Equivalents | <u>(1,282,697)</u> | <u>232,800</u> |
| <p>For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.</p> | | |
| 5.1 Current Investment Deposits | | |
| Term Deposits | 11,284,644 | 10,522,283 |
| Call Deposits | 901,386 | 772,511 |
| Total Current Investment Deposits | <u>12,186,030</u> | <u>11,294,795</u> |
| <p>Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 1.60% to 5.55% per annum.</p> <p>Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 1.50% to 7.25% per annum.</p> | | |
| Deposits attributable to Unspent Conditional Grants | - | - |
| Total Deposits attributable to Commitments of the Municipality | <u>-</u> | <u>-</u> |
| <p>Deposits of R3 670 679 (2014: R7 095 267) are ring-fenced and attributable to Unspent Conditional Grants.</p> | | |
| 5.2 Bank Accounts | | |
| Cash in Bank | 92,914 | 914,009 |
| Bank Overdraft | (13,564,441) | (11,977,403) |
| Total Bank Accounts | <u>(13,471,527)</u> | <u>(11,063,395)</u> |
| <p>The Municipality has the following bank accounts:</p> | | |
| Primary Bank Account | | |
| <i>ABSA Bank Limited - De Aar Branch - Cheque Account Number 185 000 0081</i> | | |
| Cash book balance at beginning of year | (11,977,403) | (6,498,375) |
| Cash book balance at end of year | <u>(13,564,441)</u> | <u>(11,977,403)</u> |
| Bank statement balance at beginning of year | 4,984,393 | 3,897,789 |
| Bank statement balance at end of year | <u>1,591,721</u> | <u>4,984,393</u> |
| Current Accounts | | |
| <i>Standard Bank of SA Limited - De Aar Branch - Cheque Account Number 2803 50007</i> | | |
| Cash book balance at beginning of year | 44,415 | 41,694 |
| Cash book balance at end of year | <u>20</u> | <u>44,415</u> |
| Bank statement balance at beginning of year | 44,415 | 41,494 |
| Bank statement balance at end of year | <u>20</u> | <u>44,415</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2015 R |
|--|-------------------|-------------------|
| 5. CASH AND CASH EQUIVALENTS (Continued) | | |
| <i>ABSA Bank Limited - De Aar Branch - Cheque Account Number 4061 685 162</i> | | |
| Cash book balance at beginning of year | 265,684 | 127,050 |
| Cash book balance at end of year | <u>19,502</u> | <u>265,684</u> |
| Bank statement balance at beginning of year | 265,684 | 127,050 |
| Bank statement balance at end of year | <u>19,502</u> | <u>265,684</u> |
| <i>ABSA Bank Limited - De Aar Branch - Cheque Account Number 4081 497 012</i> | | |
| Cash book balance at beginning of year | 603,910 | - |
| Cash book balance at end of year | <u>73,392</u> | <u>603,910</u> |
| Bank statement balance at beginning of year | 603,910 | - |
| Bank statement balance at end of year | <u>39,407</u> | <u>603,910</u> |
| Term Deposits | | |
| <i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 198 906</i> | | |
| Cash book balance at beginning of year | 10,507,963 | 9,925,304 |
| Cash book balance at end of year | <u>11,269,790</u> | <u>10,507,963</u> |
| Bank statement balance at beginning of year | 10,507,963 | 9,925,304 |
| Bank statement balance at end of year | <u>11,269,790</u> | <u>10,507,963</u> |
| <i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 068 494 239</i> | | |
| Cash book balance at beginning of year | 14,321 | 2,602 |
| Cash book balance at end of year | <u>14,854</u> | <u>14,321</u> |
| Bank statement balance at beginning of year | 14,321 | 2,602 |
| Bank statement balance at end of year | <u>14,854</u> | <u>14,321</u> |
| Call Deposits | | |
| <i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 118 567 212</i> | | |
| Cash book balance at beginning of year | 0 | 1,063 |
| Cash book balance at end of year | <u>-</u> | <u>0</u> |
| Bank statement balance at beginning of year | - | 1,063 |
| Bank statement balance at end of year | <u>-</u> | <u>-</u> |
| <i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 168 828 440</i> | | |
| Cash book balance at beginning of year | 0 | 10,444 |
| Cash book balance at end of year | <u>-</u> | <u>0</u> |
| Bank statement balance at beginning of year | - | 10,444 |
| Bank statement balance at end of year | <u>-</u> | <u>-</u> |
| <i>Standard Bank of SA Limited - De Aar Branch - Call Account Number 28 891 0672 001</i> | | |
| Cash book balance at beginning of year | 6,069 | 5,943 |
| Cash book balance at end of year | <u>(0)</u> | <u>6,069</u> |
| Bank statement balance at beginning of year | 6,069 | 5,943 |
| Bank statement balance at end of year | <u>(0)</u> | <u>6,069</u> |
| <i>First National Bank - De Aar Branch - Call Account Number 62338612105 / 808</i> | | |
| Cash book balance at beginning of year | 2,582 | 2,523 |
| Cash book balance at end of year | <u>2,474</u> | <u>2,582</u> |
| Bank statement balance at beginning of year | 2,582 | 2,523 |
| Bank statement balance at end of year | <u>2,474</u> | <u>2,582</u> |
| <i>Nedbank Ltd - De Aar Branch - Call Account Number 03/7662022900/000001</i> | | |
| Cash book balance at beginning of year | 730,274 | 6,521,164 |
| Cash book balance at end of year | <u>892,471</u> | <u>730,274</u> |
| Bank statement balance at beginning of year | 730,274 | 6,521,164 |
| Bank statement balance at end of year | <u>892,471</u> | <u>730,274</u> |
| <i>Standard Bank of SA Limited - De Aar Branch - Call Account Number 388910356-002</i> | | |
| Cash book balance at beginning of year | 6,282 | 557,303 |
| Cash book balance at end of year | <u>6,392</u> | <u>6,282</u> |
| Bank statement balance at beginning of year | 6,282 | 557,303 |
| Bank statement balance at end of year | <u>6,392</u> | <u>6,282</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2015 R |
|--|-----------|---------------|
| 5. CASH AND CASH EQUIVALENTS (Continued) | | |
| <i>Standard Bank of SA Limited - De Aar Branch - Call Account Number 28 891 0672 002</i> | | |
| Cash book balance at beginning of year | 27,304 | - |
| Cash book balance at end of year | <u>50</u> | <u>27,304</u> |
| Bank statement balance at beginning of year | 27,304 | - |
| Bank statement balance at end of year | <u>50</u> | <u>27,304</u> |

5.3 Cash and Cash Equivalents

| | | |
|--|---------------------|---------------------|
| Cash Floats and Advances | 2,800 | 1,400 |
| Total Cash on hand in Cash Floats, Advances and Equivalents | <u>2,800</u> | <u>1,400</u> |

The Municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the Municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the Municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

6. OPERATING LEASE RECEIVABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

| | | |
|---|---------------------|---------------------|
| Balance at beginning of year | 5,897 | 5,916 |
| Operating Lease Revenue recorded | (752) | (20) |
| Operating Lease Revenue effected | - | - |
| Total Operating Lease Receivables | <u>5,144</u> | <u>5,897</u> |
| Less: Amounts due for settlement within 12 months (Current Portion) | (1,822) | (752) |
| Total Operating Lease Receivables | <u>3,323</u> | <u>5,144</u> |

6.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the Municipality with lease terms of between 2 to 5 (2014: 2 to 5) years, with an option to extend.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

6.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

| | | |
|---|---------------------|---------------------|
| Up to 1 year | 1,822 | 752 |
| 2 to 5 years | 3,323 | 5,144 |
| More than 5 years | - | - |
| Total Operating Lease Arrangements | <u>5,144</u> | <u>5,897</u> |

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an decrease of R752 (2014: decrease of R20) in current year income.

The following restrictions have been imposed by the Municipality in terms of the lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

7. PROPERTY, PLANT AND EQUIPMENT

30 June 2015

Reconciliation of Carrying Value

| Description | Land and Buildings | Infrastructure Assets | Computer Equipment | Furniture and Fittings | Machinery Equipment | Transport Assets | Total |
|--|--------------------|-----------------------|--------------------|------------------------|---------------------|------------------|--------------------|
| | R | R | R | R | R | R | R |
| Carrying values at 1 July 2014 | 149,788,190 | 758,082,261 | 899,347 | 4,144,688 | 4,868,666 | 6,198,754 | 923,981,907 |
| Cost | 291,332,099 | 1,879,694,794 | 2,332,698 | 8,374,890 | 9,852,292 | 9,604,200 | 2,201,190,973 |
| - Completed Assets | 291,097,099 | 1,864,421,475 | 2,332,698 | 8,374,890 | 9,852,292 | 9,604,200 | 2,185,682,654 |
| - Under Construction | 235,000 | 15,273,319 | - | - | - | - | 15,508,319 |
| Accumulated Impairment Losses | - | - | (12,261) | (30,747) | (15,456) | (192,317) | (250,780) |
| Accumulated Depreciation | (141,543,909) | (1,121,612,532) | (1,421,090) | (4,199,455) | (4,968,170) | (3,213,129) | (1,276,958,286) |
| Acquisitions | - | 13,832,615 | 122,214 | 99,430 | 118,179 | - | 14,172,439 |
| Capital under Construction - Additions | - | - | - | - | - | - | - |
| Depreciation | (11,061,874) | (48,708,999) | (273,227) | (669,851) | (734,351) | (559,307) | (62,007,610) |
| Carrying value of Disposals | - | - | (63,316) | (224,238) | (456,672) | - | (744,226) |
| - Cost | - | - | (301,273) | (517,007) | (1,376,385) | - | (2,194,666) |
| - Accumulated Impairment Losses | - | - | 872 | 2,317 | - | - | 3,189 |
| - Accumulated Depreciation | - | - | 237,085 | 290,452 | 919,713 | - | 1,447,251 |
| Impairment Losses | - | - | (2,425) | (8,003) | (2,130) | (72,260) | (84,818) |
| Carrying values at 30 June 2015 | 138,726,316 | 723,205,877 | 682,593 | 3,342,026 | 3,793,693 | 5,567,186 | 875,317,692 |
| Cost | 291,332,099 | 1,893,527,409 | 2,153,639 | 7,957,313 | 8,594,086 | 9,604,200 | 2,213,168,746 |
| - Completed Assets | 291,097,099 | 1,878,254,090 | 2,153,639 | 7,957,313 | 8,594,086 | 9,604,200 | 2,197,660,428 |
| - Under Construction | 235,000 | 15,273,319 | - | - | - | - | 15,508,319 |
| Accumulated Impairment Losses | - | - | (13,814) | (36,433) | (17,585) | (264,577) | (332,409) |
| Accumulated Depreciation: | (152,605,783) | (1,170,321,531) | (1,457,232) | (4,578,854) | (4,782,808) | (3,772,437) | (1,337,518,645) |

30 June 2014

Reconciliation of Carrying Value

| Description | Land and Buildings | Infrastructure Assets | Computer Equipment | Furniture and Fittings | Machinery Equipment | Transport Assets | Total |
|--|--------------------|-----------------------|--------------------|------------------------|---------------------|------------------|--------------------|
| | R | R | R | R | R | R | R |
| Carrying values at 1 July 2013 | 160,801,208 | 792,567,169 | 825,859 | 4,939,088 | 5,521,671 | 6,075,327 | 970,730,322 |
| Cost | 290,831,143 | 1,860,426,593 | 2,348,070 | 8,602,898 | 10,000,404 | 8,804,781 | 2,181,013,889 |
| - Completed Assets | 289,622,738 | 1,826,753,248 | 2,348,070 | 8,602,898 | 10,000,404 | 8,804,781 | 2,146,132,138 |
| - Under Construction | 1,208,405 | 33,673,346 | - | - | - | - | 34,881,751 |
| Accumulated Impairment Losses | - | - | (1,203) | (20,037) | (7,296) | (174,082) | (202,616) |
| Accumulated Depreciation | (130,029,935) | (1,067,859,424) | (1,521,009) | (3,643,773) | (4,471,437) | (2,555,372) | (1,210,080,950) |
| Acquisitions | 265,956 | 3,994,882 | 381,405 | 94,748 | 254,769 | 958,684 | 5,950,444 |
| Capital under Construction - Additions | 235,000 | 15,273,319 | - | - | - | - | 15,508,319 |
| Depreciation | (11,513,974) | (53,753,108) | (229,835) | (820,859) | (823,108) | (730,042) | (67,870,925) |
| Carrying value of Disposals | - | - | (66,854) | (56,874) | (72,628) | (86,981) | (283,337) |
| - Cost | - | - | (396,777) | (322,755) | (402,881) | (159,265) | (1,281,678) |
| - Accumulated Impairment Losses | - | - | 170 | 705 | 3,878 | - | 4,753 |
| - Accumulated Depreciation | - | - | 329,753 | 265,177 | 326,375 | 72,284 | 993,589 |
| Impairment Losses | - | - | (11,228) | (11,415) | (12,038) | (18,235) | (52,917) |
| Carrying values at 30 June 2014 | 149,788,190 | 758,082,261 | 899,347 | 4,144,688 | 4,868,666 | 6,198,754 | 923,981,907 |
| Cost | 291,332,099 | 1,879,694,794 | 2,332,698 | 8,374,890 | 9,852,292 | 9,604,200 | 2,201,190,973 |
| - Completed Assets | 291,097,099 | 1,864,421,475 | 2,332,698 | 8,374,890 | 9,852,292 | 9,604,200 | 2,185,682,654 |
| - Under Construction | 235,000 | 15,273,319 | - | - | - | - | 15,508,319 |
| Accumulated Impairment Losses | - | - | (12,261) | (30,747) | (15,456) | (192,317) | (250,780) |
| Accumulated Depreciation: | (141,543,909) | (1,121,612,532) | (1,421,090) | (4,199,455) | (4,968,170) | (3,213,129) | (1,276,958,286) |

Refer to Appendices "B, C and E (4)" for more detail on Property, Plant and Equipment, including those in the course of construction.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 **2014**
R **R**

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

7.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the Municipality.

7.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal

No Property, Plant and Equipment were retired from active use and held for disposal during the financial year.

7.3 Assets pledged as security

The Municipality did not pledge any of its assets as security.

7.4 Impairment of Property, Plant and Equipment

Impairment Losses on Property, Plant and Equipment to the amount of R84 818 (2014: R52 915) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 36.

The amount disclosed for impairment losses on Property, Plant and Equipment does not include individually material amounts of impairment losses.

The recoverable service amount of the relevant assets of Property, Plant and Equipment has been determined on the basis of their fair value less cost to sell. The asset has only been partially impaired as it still in use.

7.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

A change in the estimated useful life of various assets of the Municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:

| | | |
|--|--------------------|----------|
| Land and Buildings | (22,862.22) | - |
| Infrastructure Assets | (5,243,121.16) | - |
| Other Assets | (668,804.90) | - |
| Total Change in Estimate for Useful Life of Property, Plant and Equipment | (5,934,788) | - |

The change in estimates will result in a decrease of R5 934 788 in the depreciation expense for the Municipality over the next three financial years.

7.6 Land and Buildings carried at Fair Value

The Municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

8. INTANGIBLE ASSETS

| | | |
|---------------------------------------|----------------|----------------|
| At Cost less Accumulated Amortisation | 235,393 | 383,791 |
|---------------------------------------|----------------|----------------|

The movement in Intangible Assets is reconciled as follows:

| | | |
|-----------------------------------|----------------|----------------|
| Carrying values at 1 July | 383,791 | 538,049 |
| Cost | 1,977,579 | 1,884,661 |
| Accumulated Amortisation | (1,593,788) | (1,346,611) |
| Acquisitions | 21,879 | 92,919 |
| Amortisation | (170,277) | (247,177) |
| Carrying values at 30 June | 235,393 | 383,791 |
| Cost | 1,999,458 | 1,977,579 |
| Accumulated Amortisation | (1,764,066) | (1,593,788) |

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 35).

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R **2014**
R

8. INTANGIBLE ASSETS (Continued)

All of the Municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the Municipality.

No restrictions apply to any of the Intangible Assets of the Municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

8.1 Significant Intangible Assets

The Municipality has a Financial Accounting System, Abakus, which is material in relation to other intangibles assets recognised. The carrying amount of the software of R140 256 (2014: R244 149).

8.2 Intangible Assets with Indefinite Useful Lives

The Municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

8.3 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the Municipality at the reporting date.

9. INVESTMENT PROPERTY

| | | |
|---------------|------------------|------------------|
| At Fair Value | 5,004,000 | 5,004,000 |
|---------------|------------------|------------------|

The movement in Investment Property is reconciled as follows:

| | | |
|---|------------------|------------------|
| Carrying values at 1 July | 5,004,000 | 5,004,000 |
| Fair Value | 5,004,000 | 5,004,000 |
| Accumulated Impairment Losses | - | - |
| Acquisitions during the Year | - | - |
| Net Gains / (Losses) from Fair Value Adjustments | - | - |
| Impairment Losses during the Year | - | - |
| Carrying values at 30 June | 5,004,000 | 5,004,000 |
| Fair Value | 5,004,000 | 5,004,000 |
| Accumulated Impairment | - | - |
| Estimated Fair Value of Investment Property at 30 June | 5,004,000 | 5,004,000 |

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

| | | |
|--|---|---|
| Rental Revenue earned from Investment Property | - | - |
| Direct Operating Expenses - incurred to generate rental revenue | - | - |
| Direct Operating Expenses - incurred which did not generate rental revenue | - | - |

All of the Municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the Municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

9.1 Investment Property carried at Fair Value

The Municipality's Investment Property is valued annually at 30 June at fair value by an independent, professionally qualified, valuer. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

The following assumptions were used:

| | | |
|---------------|-------|-------|
| Discount Rate | 7.80% | 6.74% |
| Other | | |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

9. INVESTMENT PROPERTY (Continued)

9.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the Municipality at the reporting date.

10. HERITAGE ASSETS

At Cost less Accumulated Impairment Losses 6,959,273 6,959,273

The movement in Heritage Assets is reconciled as follows:

| | Historical Sites | Cultural Buildings | Historical Assets | Total |
|--|---------------------|-----------------------|----------------------|------------------|
| Carrying values at 1 July 2014 | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Cost | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Accumulated Impairment | - | - | - | - |
| Acquisitions | - | - | - | - |
| Reversal of Impairment Losses | - | - | - | - |
| Impairment Losses Recognised | - | - | - | - |
| Carrying values at 30 June 2015 | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Cost | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Accumulated Impairment Losses | - | - | - | - |
| | Historical Sites | Cultural Buildings | Historical Assets | Total |
| Carrying values at 1 July 2013 | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Cost | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Accumulated Impairment | - | - | - | - |
| Acquisitions | - | - | - | - |
| Reversal of Impairment Losses | - | - | - | - |
| Impairment Losses Recognised | - | - | - | - |
| Carrying values at 30 June 2014 | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Cost | 294,501 | 5,340,072 | 1,324,700 | 6,959,273 |
| Accumulated Impairment Losses | - | - | - | - |

The Municipality has taken advantage of the transitional provisions in Directive 4 from the Accounting Standards Board with the implementation of GRAP 103. The Municipality has identified all Heritage Assets and have it valued in terms of GRAP.

All of the Municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the Municipality.

No restrictions apply to any of the Heritage Assets of the Municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

10.1 Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the Municipality at the reporting date.

11. NON-CURRENT INVESTMENTS

| | | |
|---|----------------------|----------------------|
| Listed | | |
| Listed Shares | <u>25,639</u> | <u>21,088</u> |
| Total Investments | | |
| All Investments | 25,639 | 21,088 |
| Less: Short-term Portion transferred to Current Investments | - | - |
| Total Non-current Investments | <u><u>25,639</u></u> | <u><u>21,088</u></u> |
| Market valuation of Listed Investments | | |
| Listed Shares | <u>25,639</u> | <u>21,088</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|---------------------------------|---|
| 11. NON-CURRENT INVESTMENTS (Continued) | | |
| Listed Shares are investments in shares of public companies with no specific maturity dates or interest rates. | | |
| The Management of the Municipality is of the opinion that the carrying value of Investments recorded at amortised cost in the Annual Financial Statements approximate their fair values. | | |
| 12. LONG-TERM RECEIVABLES | | |
| | Gross Balances R | Provision for Impairment R |
| As at 30 June 2015 | | Net Balances R |
| Other Loans | 1,264 | - |
| | <u>1,264</u> | <u>1,264</u> |
| Less: Current Portion transferred to Current Receivables: Other Loans | | - |
| Total Long-term Receivables | | <u><u>1,264</u></u> |
| | Gross Balances R | Provision for Impairment R |
| As at 30 June 2014 | | Net Balances R |
| Other Loans | 1,164 | - |
| | <u>1,164</u> | <u>1,164</u> |
| Less: Current Portion transferred to Current Receivables:- Other Loans | | - |
| Total Long-term Receivables | | <u><u>1,164</u></u> |
| The Municipality does not hold deposits or any other security for its Long-term Receivables. | | |
| No Long-term Receivables have been pledged as security for the Municipality's financial liabilities. | | |
| Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets. | | |
| The management of the Municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. | | |

13. CONSUMER DEPOSITS

| | | |
|--------------------------------|-------------------------|-------------------------|
| Electricity and Water | 2,111,697 | 1,948,529 |
| Total Consumer Deposits | <u><u>2,111,697</u></u> | <u><u>1,948,529</u></u> |

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the Municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the Municipality is of the opinion that the carrying value of Consumer Deposits approximates their fair values.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|-------------------------|-------------------------|
| 14. PROVISIONS | | |
| Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 20) | 1,051,176 | 1,000,584 |
| Current Portion of Long-term Service Liability (See Note 20) | 295,008 | 412,920 |
| Total Provisions | <u>1,346,184</u> | <u>1,413,504</u> |

The movement in provisions are reconciled as follows:

Current Portion of Non-Current Provisions:

| | Long-term Service R | Post-retirement R |
|-------------------------------|---------------------------|-------------------------|
| 2015 | | |
| Balance at beginning of year | 412,920 | 1,000,584 |
| Contributions to provision | - | 50,592 |
| Expenditure incurred | (117,912) | - |
| Balance at end of year | <u>295,008</u> | <u>1,051,176</u> |
| | Long-term Service R | Post-retirement R |
| 2014 | | |
| Balance at beginning of year | 419,799 | 882,492 |
| Contributions to provision | - | 118,092 |
| Expenditure incurred | (6,879) | - |
| Balance at end of year | <u>412,920</u> | <u>1,000,584</u> |

15. PAYABLES FROM EXCHANGE TRANSACTIONS

| | | |
|------------------------------|--------------------------|--------------------------|
| Trade Creditors | 1,816,880 | 1,015,073 |
| Payments Received in Advance | 1,449,985 | 1,852,624 |
| Retentions | 449,602 | 1,286,997 |
| Staff Bonuses | 2,056,538 | 1,873,069 |
| Sundry Deposits | 266,743 | 241,805 |
| Other Creditors | 6,896,922 | 5,234,939 |
| Salary Control Account | 600,859 | - |
| Accrued Leave | 5,602,285 | 4,311,470 |
| Total Payables | <u>19,139,816</u> | <u>15,815,978</u> |

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the Municipality deals with. The Municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

The Municipality did default on payment of its Creditors. However, no terms for payment have been re-negotiated by the Municipality.

The management of the Municipality is of the opinion that the carrying value of Creditors approximates their fair values.

16. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

| | | |
|------------------------------|-------------------------|-------------------------|
| Payments Received in Advance | 1,609,422 | 1,416,698 |
| Total Payables | <u>1,609,422</u> | <u>1,416,698</u> |

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The Municipality did default on payment of its Creditors. However, no terms for payment have been re-negotiated by the Municipality.

The management of the Municipality is of the opinion that the carrying value of Creditors approximates their fair values.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|------------------|------------------|
| 17. UNSPENT CONDITIONAL GRANTS AND RECEIPTS | | |
| 17.1 Conditional Grants from Government | 3,760,679 | 7,095,267 |
| National Government Grants | 1,798,375 | 1,768,757 |
| Provincial Government Grants | 1,923,116 | 5,287,322 |
| Local Government Grants | 39,188 | 39,188 |
| 17.2 Other Conditional Receipts | - | - |
| Public Contributions | - | - |
| Total Conditional Grants and Receipts | 3,760,679 | 7,095,267 |

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 27 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The Municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

18. VAT PAYABLE

| | | |
|--------------------|------------------|----------------|
| VAT Payable | 1,557,051 | 713,849 |
|--------------------|------------------|----------------|

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The Municipality has financial risk policies in place to ensure that payments are affected before the due date.

19. LONG-TERM LIABILITIES

| | | |
|---|------------------|------------------|
| Annuity Loans | 3,212,014 | 5,988,903 |
| Sub-total | 3,212,014 | 5,988,903 |
| Less: Current Portion transferred to Current Liabilities | (820,168) | (2,757,975) |
| Annuity Loans | (820,168) | (2,757,975) |
| Total Long-term Liabilities (Neither past due, nor impaired) | 2,391,846 | 3,230,928 |

19.1 Summary of Arrangements

Annuity Loans are repaid over periods varying from 5 to 10 (2014: 5 to 10) years and at interest rates varying from 9.60% to 12.00% (2014: 9.60% to 12.00%) per annum. Annuity Loans are not secured.

The management of the Municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the Municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

19.2 Breach of Loan Agreement

The Municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiated by the Municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|--------------------------|--------------------------|
| 20. EMPLOYEE BENEFIT LIABILITIES | | |
| Post-retirement Health Care Benefits Liability | 33,925,800 | 31,349,656 |
| Long Service Awards Liability | 3,087,807 | 2,670,572 |
| Total Employee Benefit Liabilities | <u>37,013,607</u> | <u>34,020,228</u> |

20.1 Post-retirement Health Care Benefits Liability

| | | |
|---|--------------------------|--------------------------|
| Balance at beginning of Year | 32,350,240 | 29,721,154 |
| Contributions to Provision | 1,828,833 | 1,466,239 |
| Increase due to Discounting | 2,886,475 | 2,586,237 |
| Expenditure incurred | (1,000,584) | (882,492) |
| Actuarial (Gains) /Losses | (1,087,988) | (540,898) |
| Balance at end of Year | <u>34,976,976</u> | <u>32,350,240</u> |
| Transfer to Current Provisions | (1,051,176) | (1,000,584) |
| Total Post-retirement Health Care Benefits Liability | <u>33,925,800</u> | <u>31,349,656</u> |

The Municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the Municipality. According to the rules of the Medical Aid Funds, with which the Municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the Municipality is liable for a certain portion of the medical aid membership fee. The Municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

| | | |
|---|-------------------|-------------------|
| In-service Members (Employees) | 54 | 53 |
| In-service Non-members (Employees) | 284 | 274 |
| Continuation Members (Retirees, widowers and orphans) | 29 | 30 |
| Total Members | <u>367</u> | <u>357</u> |

The liability in respect of past service has been estimated as follows:

| | | |
|------------------------|--------------------------|--------------------------|
| In-service Members | 20,397,487 | 18,259,872 |
| Continuation Members | 14,579,489 | 14,090,368 |
| Total Liability | <u>34,976,976</u> | <u>32,350,240</u> |

The Municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2015 is estimated to be R1 828 833, whereas the cost for the ensuing year is estimated to be R2 065 923 (2013: R1 466 239 and R1 828 833 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | | |
|-----------------------------------|-------|-------|
| Discount Rate | 8.98% | 9.06% |
| Health Care Cost Inflation Rate | 8.06% | 8.23% |
| Net Effective Discount Rate | 0.85% | 0.76% |
| Expected Retirement Age - Females | 59 | 59 |
| Expected Retirement Age - Males | 63 | 63 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 20. EMPLOYEE BENEFIT LIABILITIES (Continued) | | | | | |
| Movements in the present value of the Defined Benefit Obligation were as follows: | | | | | |
| Balance at the beginning of the year | 32,350,240 | 29,721,154 | | | |
| Current service costs | 1,828,833 | 1,466,239 | | | |
| Interest cost | 2,886,475 | 2,586,237 | | | |
| Benefits paid | (1,000,584) | (882,492) | | | |
| Actuarial losses / (gains) | (1,087,988) | (540,898) | | | |
| Total Recognised Benefit Liability | <u>34,976,976</u> | <u>32,350,240</u> | | | |
| The amounts recognised in the Statement of Financial Position are as follows: | | | | | |
| Present value of fund obligations | 34,976,976 | 32,350,240 | | | |
| Total Benefit Liability | <u>34,976,976</u> | <u>32,350,240</u> | | | |
| The amounts recognised in the Statement of Financial Performance are as follows: | | | | | |
| Current service cost | 1,828,833 | 1,466,239 | | | |
| Interest cost | 2,886,475 | 2,586,237 | | | |
| Expenditure incurred | (1,000,584) | (882,492) | | | |
| Actuarial losses / (gains) | (1,087,988) | (540,898) | | | |
| Total Post-retirement Benefit included in Employee Related Costs (Note 32) | <u>2,626,736</u> | <u>2,629,086</u> | | | |
| The history of experienced adjustments is as follows: | | | | | |
| | 2015 R | 2014 R | 2013 R | 2012 R | 2011 R |
| Present Value of Defined Benefit Obligation | 34,976,976 | 32,350,240 | 29,721,154 | 25,908,685 | 26,598,730 |
| Deficit | <u>34,976,976</u> | <u>32,350,240</u> | <u>29,721,154</u> | <u>25,908,685</u> | <u>26,598,730</u> |
| Experienced adjustments on Plan Liabilities | 36,064,964 | 32,891,138 | 28,430,330 | 29,078,560 | 26,598,730 |
| The effect of a 1% movement in the assumed rate of health care cost inflation is as follows: | | | | | |
| Increase: | | | | | |
| Effect on the aggregate of the current service cost and the interest cost | | | | 5,701,300 | 4,839,500 |
| Effect on the defined benefit obligation | | | | 41,132,000 | 37,942,000 |
| Decrease: | | | | | |
| Effect on the aggregate of the current service cost and the interest cost | | | | 3,940,800 | 3,427,400 |
| Effect on the defined benefit obligation | | | | 30,039,000 | 27,846,000 |

The Municipality expects to make a contribution of R2 065 923 (2014: R1 828 833) to the Defined Benefit Plans during the next financial year.

Refer to Note 56 "Multi-employer Retirement Benefit Information" to the Annual Financial Statements for more information regarding the Municipality's other retirement funds that is Provincially and Nationally administered.

20.2 Long Service Awards Liability

| | | |
|--|-------------------------|-------------------------|
| Balance at beginning of Year | 3,083,492 | 2,933,312 |
| Contributions to Provision | 312,023 | 421,885 |
| Increase due to Discounting | 226,797 | 192,955 |
| Expenditure incurred | (412,920) | (419,799) |
| Actuarial (Gains) /Losses | 173,423 | (44,861) |
| Balance at end of Year | <u>3,382,815</u> | <u>3,083,492</u> |
| Transfer to Current Provisions | (295,008) | (412,920) |
| Total Long Service Awards Liability | <u>3,087,807</u> | <u>2,670,572</u> |

The Municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-------------------|-------------------|-------|---------------------|-------|-------|-----------------------------|-------|-------|--------------------------------------|-----------|-----------|-----------------------|---------|---------|---------------|---------|---------|---------------|-----------|-----------|----------------------------|---------|----------|---|------------------|------------------|-----------------------------------|-----------|-----------|--------------------------------|------------------|------------------|----------------------|---------|---------|---------------|---------|---------|---------------|-----------|-----------|----------------------------|---------|----------|---|----------------|----------------|---|---------|---------|--|-----------|-----------|---|---------|---------|--|-----------|-----------|--|--|
| 20. EMPLOYEE BENEFIT LIABILITIES (Continued) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.</p> <p>At year end, 338 (2014: 326) employees were eligible for Long-services Awards.</p> <p>The Current-service Cost for the year ending 30 June 2015 is estimated to be R312 023 (2014: R421 885), whereas the cost for the ensuing year is estimated to be R369 911 (2014: R312 023).</p> <p>The principal assumptions used for the purposes of the actuarial valuations were as follows:</p> <table> <tr> <td>Discount Rate</td><td style="text-align: right;">8.03%</td><td style="text-align: right;">7.87%</td></tr> <tr> <td>Cost Inflation Rate</td><td style="text-align: right;">7.09%</td><td style="text-align: right;">7.06%</td></tr> <tr> <td>Net Effective Discount Rate</td><td style="text-align: right;">0.88%</td><td style="text-align: right;">0.76%</td></tr> </table> <p>Movements in the present value of the Defined Benefit Obligation were as follows:</p> <table> <tr> <td>Balance at the beginning of the year</td><td style="text-align: right;">3,083,492</td><td style="text-align: right;">2,933,312</td></tr> <tr> <td>Current service costs</td><td style="text-align: right;">312,023</td><td style="text-align: right;">421,885</td></tr> <tr> <td>Interest cost</td><td style="text-align: right;">226,797</td><td style="text-align: right;">192,955</td></tr> <tr> <td>Benefits paid</td><td style="text-align: right;">(412,920)</td><td style="text-align: right;">(419,799)</td></tr> <tr> <td>Actuarial losses / (gains)</td><td style="text-align: right;">173,423</td><td style="text-align: right;">(44,861)</td></tr> <tr> <td>Total Recognised Benefit Liability</td><td style="text-align: right;">3,382,815</td><td style="text-align: right;">3,083,492</td></tr> </table> <p>The amounts recognised in the Statement of Financial Position are as follows:</p> <table> <tr> <td>Present value of fund obligations</td><td style="text-align: right;">3,382,815</td><td style="text-align: right;">3,083,492</td></tr> <tr> <td>Total Benefit Liability</td><td style="text-align: right;">3,382,815</td><td style="text-align: right;">3,083,492</td></tr> </table> <p>The amounts recognised in the Statement of Financial Performance are as follows:</p> <table> <tr> <td>Current service cost</td><td style="text-align: right;">312,023</td><td style="text-align: right;">421,885</td></tr> <tr> <td>Interest cost</td><td style="text-align: right;">226,797</td><td style="text-align: right;">192,955</td></tr> <tr> <td>Benefits paid</td><td style="text-align: right;">(412,920)</td><td style="text-align: right;">(419,799)</td></tr> <tr> <td>Actuarial losses / (gains)</td><td style="text-align: right;">173,423</td><td style="text-align: right;">(44,861)</td></tr> <tr> <td>Total Post-retirement Benefit included in Employee Related Costs (Note 32)</td><td style="text-align: right;">299,323</td><td style="text-align: right;">150,180</td></tr> </table> <p>The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:</p> <p>Increase:</p> <table> <tr> <td>Effect on the aggregate of the current service cost and the interest cost</td><td style="text-align: right;">581,000</td><td style="text-align: right;">649,600</td></tr> <tr> <td>Effect on the defined benefit obligation</td><td style="text-align: right;">3,600,000</td><td style="text-align: right;">3,274,000</td></tr> </table> <p>Decrease:</p> <table> <tr> <td>Effect on the aggregate of the current service cost and the interest cost</td><td style="text-align: right;">500,900</td><td style="text-align: right;">583,600</td></tr> <tr> <td>Effect on the defined benefit obligation</td><td style="text-align: right;">3,185,000</td><td style="text-align: right;">2,909,000</td></tr> </table> <p>The Municipality expects to make a contribution of R295 008 (2014: R352 831) to the Defined Benefit Plans during the next financial year.</p> | Discount Rate | 8.03% | 7.87% | Cost Inflation Rate | 7.09% | 7.06% | Net Effective Discount Rate | 0.88% | 0.76% | Balance at the beginning of the year | 3,083,492 | 2,933,312 | Current service costs | 312,023 | 421,885 | Interest cost | 226,797 | 192,955 | Benefits paid | (412,920) | (419,799) | Actuarial losses / (gains) | 173,423 | (44,861) | Total Recognised Benefit Liability | 3,382,815 | 3,083,492 | Present value of fund obligations | 3,382,815 | 3,083,492 | Total Benefit Liability | 3,382,815 | 3,083,492 | Current service cost | 312,023 | 421,885 | Interest cost | 226,797 | 192,955 | Benefits paid | (412,920) | (419,799) | Actuarial losses / (gains) | 173,423 | (44,861) | Total Post-retirement Benefit included in Employee Related Costs (Note 32) | 299,323 | 150,180 | Effect on the aggregate of the current service cost and the interest cost | 581,000 | 649,600 | Effect on the defined benefit obligation | 3,600,000 | 3,274,000 | Effect on the aggregate of the current service cost and the interest cost | 500,900 | 583,600 | Effect on the defined benefit obligation | 3,185,000 | 2,909,000 | | |
| Discount Rate | 8.03% | 7.87% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost Inflation Rate | 7.09% | 7.06% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net Effective Discount Rate | 0.88% | 0.76% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance at the beginning of the year | 3,083,492 | 2,933,312 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current service costs | 312,023 | 421,885 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest cost | 226,797 | 192,955 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Benefits paid | (412,920) | (419,799) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actuarial losses / (gains) | 173,423 | (44,861) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Recognised Benefit Liability | 3,382,815 | 3,083,492 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Present value of fund obligations | 3,382,815 | 3,083,492 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Benefit Liability | 3,382,815 | 3,083,492 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current service cost | 312,023 | 421,885 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest cost | 226,797 | 192,955 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Benefits paid | (412,920) | (419,799) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actuarial losses / (gains) | 173,423 | (44,861) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Post-retirement Benefit included in Employee Related Costs (Note 32) | 299,323 | 150,180 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effect on the aggregate of the current service cost and the interest cost | 581,000 | 649,600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effect on the defined benefit obligation | 3,600,000 | 3,274,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effect on the aggregate of the current service cost and the interest cost | 500,900 | 583,600 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Effect on the defined benefit obligation | 3,185,000 | 2,909,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 21. NON-CURRENT PROVISIONS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Provision for Rehabilitation of Land-fill Sites | 16,450,671 | 15,659,849 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Non-current Provisions | 16,450,671 | 15,659,849 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| The movement in the Provision for Rehabilitation of Land-fill Sites is reconciled as follows: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance at beginning of year | 15,659,849 | 14,907,044 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Contributions to provision | 790,822 | 752,805 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 16,450,671 | 15,659,849 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transfer to current provisions | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Balance at end of year | 16,450,671 | 15,659,849 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | | 2015 R | 2014 R |
|---|------------------------------------|--------------------------|--------------------------|
| 21. NON-CURRENT PROVISIONS (Continued) | | | |
| 21.1 Rehabilitation of Land-fill Sites | | | |
| The Municipality will incur rehabilitation cost on its two dumping/landfill sites in the periods 2016/17 and 2024/25. Provision has been made for the net present value of this cost. | | | |
| | Proposed Rehabilitation | | |
| Britstown Landfill | 2036/2037 | 12,081,738 | 12,081,738 |
| De Aar Landfill | 2021/2022 | 1,375,345 | 1,375,345 |
| Hanover Landfill | 2026/2027 | 2,202,767 | 2,202,767 |
| | | <u>15,659,850</u> | <u>15,659,850</u> |

22. ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

| | | |
|--|---------------------------|---------------------------|
| Capital Replacement Reserve (CRR) | 2,252,793 | 2,252,793 |
| Accumulated Surplus / (Deficit) due to the results of Operations | 914,638,345 | 958,109,036 |
| Total Accumulated Surplus | <u>916,891,138</u> | <u>960,361,829</u> |

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

23. PROPERTY RATES

| | Property Valuations | | Actual Levies | |
|-----------------------------|-----------------------------|-----------------------------|--------------------------|--------------------------|
| | 2015 R000's | 2014 R000's | | |
| Agricultural | 1,172,727,179 | 1,172,727,179 | 11,303,812 | 10,855,068 |
| Commercial | 177,013,456 | 177,013,456 | 1,706,217 | 1,638,483 |
| Industrial | - | - | - | - |
| Municipal | 26,589,449 | 26,589,449 | 256,293 | 246,119 |
| Residential | 797,198,115 | 797,198,115 | 7,684,121 | 7,379,073 |
| State | 99,038,593 | 99,038,593 | 954,624 | 916,727 |
| Consent Use | - | - | - | - |
| Undeveloped | - | - | - | - |
| Total Property Rates | <u>2,272,566,792</u> | <u>2,272,566,792</u> | <u>21,905,068</u> | <u>21,035,469</u> |

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2013.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 1.2133 c/R (2014: 1.1500 c/R)
Business Properties: 1.2578 c/R (2014: 1.1700 c/R)
State Owned Properties: 1.5900 c/R (2014: 1.5000 c/R)

A rebate of 100.00% (2014: 100.00%) was allowed on residential properties whose market value is R 18 000 and less and agriculture properties are levied as per Government Gazette of 2009.

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

24. FINES

| | | |
|-------------------------|--------------------------|--------------------------|
| Penalties for Consumers | 190,705 | 112,650 |
| Traffic Fines | 24,286,770 | 14,786,051 |
| Total Fines | <u>24,477,475</u> | <u>14,898,701</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|-------------------|-------------------|
| 25. LICENCES AND PERMITS | | |
| Driver and Leaner Licences | 347,525 | 474,115 |
| Roadworthy and Other Special Permits | 909,405 | 829,834 |
| Other | - | 633 |
| Total Licences and Permits | 1,256,930 | 1,304,582 |
| 26. GOVERNMENT GRANTS AND SUBSIDIES | | |
| National Equitable Share | 35,342,000 | 34,819,000 |
| Provincial: Sports, Arts and Culture (Library Grant) | 757,000 | 679,000 |
| Operational Grants | 36,099,000 | 35,498,000 |
| Conditional Grants | 18,124,569 | 23,355,606 |
| National: EPWP | 897,011 | 1,233,796 |
| National: FMG | 1,600,000 | 1,550,000 |
| National: MIG | 13,967,188 | 13,101,844 |
| National: MSIG | 934,000 | 890,000 |
| Provincial: DWA (Other Capital Projects) | 81,370 | 1,804,910 |
| Provincial: Sports, Arts and Culture (Phandulwazi Upgrade) | - | - |
| Provincial: Housing Accreditation | 645,000 | 458,333 |
| Provincial: Department of Health | - | 1,150,332 |
| Provincial: Department of Education | - | 235,000 |
| Provincial: Department of Roads | - | 1,829,187 |
| Provincial: DWA | - | - |
| Provincial: Department of Roads | - | 560,000 |
| National: Integrated National Electrification Programme (INEP) | - | 542,205 |
| Other Local Government | - | - |
| Total Government Grants and Subsidies | 54,243,255 | 58,853,606 |
| Government Grants and Subsidies: | | |
| Conditional Grants - Capital | 14,473,251 | 19,830,063 |
| Conditional Grants - Operational | 3,671,004 | 3,525,543 |
| Unconditional Grants - Capital | - | - |
| Unconditional Grants - Operational | 36,099,000 | 35,498,000 |
| Total Government Grants and Subsidies | 54,243,255 | 58,853,606 |
| Summary of Transfers: | | |
| Conditions met - transferred to Revenue: Operating Expenses | 39,770,004 | 39,023,543 |
| Conditions met - transferred to Revenue: Capital Expenses | 14,473,251 | 19,830,063 |
| Total Transfers | 54,243,255 | 58,853,606 |
| Operational Grants: | | |
| 26.1 National: Equitable Share | 35,342,000 | 34,819,000 |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R367 (2014: R342), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld. | | |
| 26.2 Provincial: Sports, Arts and Culture (Library Grant) | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 757,000 | 679,000 |
| Conditions met - transferred to Operating Revenue | (757,000) | (679,000) |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | - |

This grant was allocated for the upgrading of library equipment and operating expenses. All conditions attached to the grant were met. No funds have been withheld.

Conditional Grants:

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|---------------|-------------|
| 26. GOVERNMENT GRANTS AND SUBSIDIES (Continued) | | |
| 26.3 National: Expanded Public Works Programme | | |
| Balance unspent at beginning of year | - | 233,796 |
| Current year receipts | 1,000,000 | 1,000,000 |
| Conditions met - transferred to Operating Revenue | - | - |
| Conditions met - transferred to Capital Revenue | (897,011) | (1,233,796) |
| Conditions met - transferred to Other Revenue (Own Income) | (55,715) | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 47,275 | - |

This grant was used for the upgrading of Roads facilities. All conditions attached to the grant were met. No funds have been withheld.

26.4 National: Financial Management Grant (FMG)

| | | |
|--|-------------|-------------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 1,600,000 | 1,550,000 |
| Conditions met - transferred to Operating Revenue | (1,600,000) | (1,550,000) |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | - |

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). All conditions attached to the grant were met. No funds have been withheld.

26.5 National: Municipal Infrastructure Grant (MIG)

| | | |
|--|------------------|------------------|
| Balance unspent at beginning of year | 1,511,512 | 6,053,160 |
| Current year receipts | 16,108,000 | 15,324,000 |
| Conditions met - transferred to Operating Revenue | (390,948) | (503,240) |
| Conditions met - transferred to Capital Revenue | (13,576,240) | (12,598,604) |
| Conditions met - transferred to Other Revenue (Own Income) | (1,900,674) | (1,763,804) |
| Other Adjustments / Refunds | - | (5,000,000) |
| Conditions still to be met - transferred to Current liabilities (see Note 18) | 1,751,651 | 1,511,512 |

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B").

At yearend, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

26.6 National: Municipal Systems Improvement Grant (MSIG)

| | | |
|--|-----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 934,000 | 890,000 |
| Conditions met - transferred to Operating Revenue | (934,000) | (890,000) |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | - |

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. All conditions attached to the grant were met. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|---------------|---------------|
| 26. GOVERNMENT GRANTS AND SUBSIDIES (Continued) | | |
| 26.7 Provincial: Department of Water Affairs | | |
| Balance unspent at beginning of year | 15,621 | - |
| Current year receipts | 92,762 | 2,065,804 |
| Conditions met - transferred to Operating Revenue | (81,370) | (123,970) |
| Conditions met - transferred to Capital Revenue | - | (1,680,940) |
| Conditions met - transferred to Other Revenue (Own Income) | (11,392) | (245,274) |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 15,621 | 15,621 |

At yearend, not all conditions were met in respect to the upgrading of the library as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

26.8 Provincial: Sports, Arts and Culture (Phandulwazi Upgrade)

| | | |
|--|----------------|----------------|
| Balance unspent at beginning of year | 150,000 | 150,000 |
| Current year receipts | - | - |
| Conditions met - transferred to Operating Revenue | - | - |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 150,000 | 150,000 |

This grant was allocated for the upgrade of the Phandulwazi Library in accordance with the submitted business plan. No funds have been withheld.

This grant was allocated for the upgrade of the Phandulwazi Library in accordance with the submitted business

26.9 Provincial: Housing Accreditation

| | | |
|--|-----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | 645,000 | 458,333 |
| Conditions met - transferred to Operating Revenue | (645,000) | (458,333) |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | - |

This grant was allocated to improve capacity within the administration of the Municipality in respect to the Housing Department. All conditions attached to the grant were met. No funds have been withheld.

26.10 Provincial: Department of Health

| | | |
|--|-------------|------------------|
| Balance unspent at beginning of year | 3,599,559 | 3,410,938 |
| Current year receipts | - | 1,500,000 |
| Conditions met - transferred to Operating Revenue | - | - |
| Conditions met - transferred to Capital Revenue | - | (1,150,332) |
| Conditions met - transferred to Other Revenue (Own Income) | (3,599,559) | (161,047) |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | 3,599,559 |

The grant was received for the construction of the electricity lines to the new hospital. All conditions attached to the grant were met. No funds have been withheld.

At yearend, not all conditions were met in respect to the construction of the electricity line as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|------------------|------------------|
| 26. GOVERNMENT GRANTS AND SUBSIDIES (Continued) | | |
| 26.11 Provincial: Department of Education | | |
| Balance unspent at beginning of year | 1,232,100 | - |
| Current year receipts | - | 1,500,000 |
| Conditions met - transferred to Operating Revenue | - | - |
| Conditions met - transferred to Capital Revenue | - | (235,000) |
| Conditions met - transferred to Other Revenue (Own Income) | - | (32,900) |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 1,232,100 | 1,232,100 |

The grant was received for the construction of a new athletics field. All conditions attached to the grant were met. No funds have been withheld.

At yearend, not all conditions were met in respect to the construction of the athletics field as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

26.12 Provincial: Department of Roads

| | | |
|--|----------------|----------------|
| Balance unspent at beginning of year | 290,042 | 2,232,729 |
| Current year receipts | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (19,686) | - |
| Conditions met - transferred to Revenue: Capital Expenses | - | (1,829,187) |
| Conditions met - transferred to Revenue: VAT portion released | (2,756) | (113,500) |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 267,600 | 290,042 |

This grant was allocated for the construction and upgrading of roads within the Nonzwakazi area. At yearend, not all conditions were met in respect to the revitalization of the roads as all funds received were not spent. This resulted in the unspent portion being recognised at yearend.

26.13 Provincial: Department of Roads

| | | |
|--|----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current year receipts | - | 560,000 |
| Conditions met - transferred to Revenue: Operating Expenses | - | - |
| Conditions met - transferred to Revenue: Capital Expenses | - | (560,000) |
| Conditions met - transferred to Revenue: VAT portion released | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | - | - |

This grant was allocated for the construction and upgrading of roads within the municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

26.14 National: Integrated National Electrification Programme (INEP)

| | | |
|--|----------------|----------------|
| Balance unspent at beginning of year | 257,795 | - |
| Current year receipts | - | 800,000 |
| Conditions met - transferred to Revenue: Operating Expenses | - | - |
| Conditions met - transferred to Revenue: Capital Expenses | - | (542,205) |
| Conditions met - transferred to Revenue: VAT portion released | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 257,795 | 257,795 |

This grant was allocated for the construction and upgrading of electricity networks within the municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

26.15 Other Local Government

| | | |
|--|---------------|---------------|
| Balance unspent at beginning of year | 39,188 | 39,188 |
| Current year receipts | - | - |
| Conditions met - transferred to Operating Revenue | - | - |
| Conditions met - transferred to Capital Revenue | - | - |
| Conditions met - transferred to Other Revenue (Own Income) | - | - |
| Other Adjustments / Refunds | - | - |
| Conditions still to be met - transferred to Current liabilities (see Note 17) | 39,188 | 39,188 |

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the grant were met. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|-------------------|-------------------|
| 26. GOVERNMENT GRANTS AND SUBSIDIES (Continued) | | |
| 26.16 Changes in levels of Government Grants | | |
| Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2014), government grant funding is expected to increase over the forthcoming three financial years. | | |
| 27. SERVICE CHARGES | | |
| Sale of Electricity | 59,934,848 | 56,487,600 |
| Sale of Water | 20,888,046 | 18,745,519 |
| Refuse Removal | 5,822,484 | 5,705,360 |
| Sewerage and Sanitation Charges | 10,668,235 | 10,301,577 |
| Other Service Charges | 427,195 | 414,759 |
| Total Service Charges | 97,740,808 | 91,654,816 |
| The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs. | | |
| 28. RENTAL OF FACILITIES AND EQUIPMENT | | |
| Rental Revenue from Halls | 83,135 | 81,502 |
| Rental Revenue from Land | 1,083,070 | 586,428 |
| Rental Revenue from Other Facilities | 22,700 | 79,215 |
| Total Rental of Facilities and Equipment | 1,188,905 | 747,144 |
| Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out. | | |
| 29. INTEREST EARNED | | |
| Property Rates: | | |
| Interest / Penalties Raised | 170,342 | 149,924 |
| | 170,342 | 149,924 |
| External Investments: | | |
| Bank Account | 104,700 | 146,833 |
| Investments | 845,700 | 883,642 |
| Other Deposits | - | - |
| | 950,399 | 1,030,475 |
| Total Interest Received | 950,399 | 1,030,475 |
| Interest - Fixed Deposits | - | - |
| Interest - Notice Deposits | - | - |
| Interest - Other | - | - |
| Interest - Variable Rate Instruments | 950,399 | 1,030,475 |
| Outstanding Debtors: | | |
| Long-term Debtors | - | - |
| Outstanding Billing Debtors | 645,761 | 625,352 |
| | 645,761 | 625,352 |
| Total Interest Earned | 1,766,503 | 1,805,751 |
| Interest Earned on Financial Assets, analysed by category of asset, is as follows: | | |
| Available-for-Sale Financial Assets | 950,399 | 1,030,475 |
| Loans and Receivables | 816,103 | 775,276 |
| | 1,766,503 | 1,805,751 |
| Revenue recognised in respect of Financial Assets designated as at "fair value" is disclosed in Note 43. | | |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|----------------------------|------------------|------------------|
| 30. OTHER REVENUE | | |
| Building Plan Fees | 116,632 | 41,675 |
| Grave Fees | 281,548 | 256,797 |
| Sundries Levies | 4,536,255 | 224,052 |
| Own Income - VAT | 1,967,780 | 2,316,525 |
| Reconnection Fees | 204,958 | 219,587 |
| Tender Documents | 26,266 | 4,850 |
| Other Non-material Income | 117,599 | 153,416 |
| Total Other Revenue | 7,251,038 | 3,216,902 |

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 23 to 29, rendered which are billed to or paid for by the users as the services are required according to approved tariffs. Inter-departmental Recoveries are received from other trading and economic services.

| | | |
|--|----------------|-----------------|
| 31. PROFIT (LOSS) ON SALE OF LAND | | |
| Proceeds on Sale of Land | 1,186,324 | 470,543 |
| Cost of Sale of Land | (207,700) | (540,299) |
| Total Profit on Sale of Land | 978,624 | (69,756) |

32. EMPLOYEE RELATED COSTS

| | | |
|---|-------------------|-------------------|
| Employee Related Costs - Salaries and Wages | 48,248,010 | 42,470,180 |
| Basic Salaries and Wages | 42,882,124 | 38,636,168 |
| Long Service Bonuses | 216,516 | - |
| Leave Encashed | 1,707,088 | 366,179 |
| Service Bonuses | 3,442,282 | 3,467,833 |
| Employee Related Costs - Contributions for UIF, Pensions and Medical Aids | 10,585,794 | 9,735,828 |
| Group Life | 46,681 | 50,478 |
| Medical | 2,470,281 | 2,272,783 |
| Pension | 7,160,963 | 6,460,521 |
| Industrial Council Levy | 28,598 | 26,264 |
| Skills Development Levy | 476,197 | 513,949 |
| UIF | 403,075 | 411,833 |
| Travel, Motor Car, Accommodation, Subsistence and Other Allowances | 2,646,838 | 2,537,967 |
| Allowances | 2,646,838 | 2,539,467 |
| Pensioners Allowances | - | (1,500) |
| Housing Benefits and Allowances | 93,036 | 108,794 |
| Overtime Payments | 2,364,532 | 2,261,599 |
| Defined Benefit Plan Expense: | 2,626,736 | 2,629,086 |
| Current Service Cost | 1,828,833 | 583,747 |
| Interest Cost | 2,886,475 | 2,586,237 |
| Net Actuarial (gains)/losses recognised | (1,087,988) | (540,898) |
| Vested Past Service Cost | (1,000,584) | - |
| Long-service Award Liability Expense: | 299,323 | 150,180 |
| Current Service Cost | 312,023 | 421,885 |
| Interest Cost | 226,797 | 192,955 |
| Net Actuarial (gains)/losses recognised | 173,423 | (44,861) |
| Vested Past Service Cost | (412,920) | (419,799) |
| Total Employee Related Costs | 66,864,269 | 59,893,633 |

No advances were made to employees.

Included in Employee Related Costs is an amount of R7 160 963 (2014: R6 460 521) paid by the Municipality to Defined Contribution Plans at rates specified by the rules of the plans.

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager

| | | |
|---|------------------|------------------|
| Annual Remuneration | 856,769 | 828,514 |
| Performance Bonus | 192,969 | 147,037 |
| Car and Other Allowances | 258,000 | 247,008 |
| Company Contributions to UIF, Medical and Pension Funds | 150,182 | 138,842 |
| Total | 1,457,919 | 1,361,401 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|-------------------|-------------------|
| 32. EMPLOYEE RELATED COSTS (Continued) | | |
| <i>Remuneration of the Chief Financial Officer</i> | | |
| Annual Remuneration | 698,809 | 654,111 |
| Performance Bonus | 172,314 | 151,471 |
| Car and Other Allowances | 271,392 | 262,708 |
| Company Contributions to UIF, Medical and Pension Funds | 135,829 | 125,911 |
| Total | 1,278,343 | 1,194,201 |
| <i>Remuneration of the Director: Corporate Services</i> | | |
| Annual Remuneration | 513,874 | 476,387 |
| Performance Bonus | 100,249 | 72,950 |
| Car and Other Allowances | 125,690 | 128,090 |
| Company Contributions to UIF, Medical and Pension Funds | 145,056 | 135,015 |
| Total | 884,870 | 812,443 |
| <i>Remuneration of the Director: Community and Development Services</i> | | |
| Annual Remuneration | 615,208 | 591,001 |
| Performance Bonus | 88,000 | - |
| Car and Other Allowances | 161,952 | 155,520 |
| Company Contributions to UIF, Medical and Pension Funds | 108,327 | 99,634 |
| Total | 973,486 | 846,156 |
| <i>Remuneration of the Director: Infrastructure and Housing Services</i> | | |
| Annual Remuneration | 490,414 | 524,319 |
| Performance Bonus | 66,000 | 103,136 |
| Car and Other Allowances | 36,665 | 138,228 |
| Company Contributions to UIF, Medical and Pension Funds | 127,538 | 97,363 |
| Total | 720,616 | 863,046 |
| The post was vacated on 30 April 2014. An Acting Allowance was paid for the period 1 May 2014 to 31 July 2014. | | |
| No compensation was payable to key management personnel in terms of GRAP 25 as at 30 June. | | |
| 33. REMUNERATION OF COUNCILLORS | | |
| Mayor | 698,408 | 655,551 |
| Speaker | 560,199 | 651,917 |
| Councillors | 1,681,485 | 1,612,331 |
| Company Contributions to UIF, Medical and Pension Funds | 327,600 | 375,086 |
| Other Allowances (Cellular Phones, Housing, Transport, etc) | 858,767 | 862,300 |
| Total Councillors' Remuneration | 4,126,459 | 4,157,184 |
| Remuneration of Councillors: | | |
| <i>In-kind Benefits</i> | | |
| Councillors may utilise official Council transportation when engaged in official duties. | | |
| The Mayor has use of a Council owned vehicle for official duties. | | |
| 34. COLLECTION COSTS | | |
| Commission Paid | 283,077 | - |
| Total Collection Costs | 283,077 | - |
| 35. DEPRECIATION AND AMORTISATION | | |
| Depreciation: Property, Plant and Equipment | 62,007,610 | 67,870,926 |
| Amortisation: Intangible Assets | 170,277 | 247,176 |
| Total Depreciation and Amortisation | 62,177,887 | 68,118,102 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|-------------------|-------------------|
| 36. IMPAIRMENT LOSSES | | |
| 36.1 Impairment Losses on Fixed Assets | | |
| Impairment Losses Recognised: | 84,818 | 52,915 |
| Property, Plant and Equipment | 84,818 | 52,915 |
| Intangible Assets | - | - |
| Impairment Losses Reversed: | - | - |
| Property, Plant and Equipment | - | - |
| Intangible Assets | - | - |
| | 84,818 | 52,915 |
| 36.2 Impairment Losses on Financial Assets | | |
| Impairment Losses Recognised: | 30,812,313 | 43,133,120 |
| Receivables from Exchange Transactions | 14,609,070 | 29,589,951 |
| Receivables from Non-exchange Transactions | 16,203,243 | 13,543,169 |
| Impairment Losses Reversed: | - | - |
| Receivables from Exchange Transactions | - | - |
| Receivables from Non-exchange Transactions | - | - |
| | 30,812,313 | 43,133,120 |
| Total Impairment Losses | 30,897,130 | 43,186,035 |
| 37. REPAIRS AND MAINTENANCE | | |
| Land and Buildings | 907,927 | 536,870 |
| Infrastructure - Electricity | 3,127,993 | 4,310,505 |
| Infrastructure - Road Transport | 604,426 | 1,310,473 |
| Infrastructure - Sanitation | 7,520 | 62,543 |
| Infrastructure - Water | 698,894 | 922,775 |
| Infrastructure - Other | 2,679,008 | 1,540,773 |
| Other Assets | 3,189,046 | 2,926,934 |
| Total Repairs and Maintenance | 11,214,814 | 11,610,873 |
| 38. FINANCE COSTS | | |
| Bank Overdraft | 23,589 | 7,534 |
| Finance Leases | - | 64,386 |
| Current Borrowings | 522,138 | 783,203 |
| Landfill Provision | 790,822 | 752,806 |
| Total Interest Paid on External Borrowings | 1,336,550 | 1,607,928 |
| The weighted average capitalisation rate on funds borrowed generally is 10.00% per annum (2014: 10.00% per annum). | | |
| 39. BULK PURCHASES | | |
| Electricity | 45,222,232 | 42,152,616 |
| Water | 1,826,423 | 1,382,964 |
| Total Bulk Purchases | 47,048,655 | 43,535,580 |
| Bulk Purchases are the cost of commodities not generated by the Municipality, which the Municipality distributes in the Municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from various sources. | | |
| 40. CONTRACTED SERVICES | | |
| Professional Fees | 2,708,719 | 1,904,368 |
| Security Services | 1,813,991 | 2,277,338 |
| Other Contracted Services | 3,244,703 | 3,045,979 |
| Total Contracted Services | 7,767,413 | 7,227,685 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--------------------------------------|----------------|----------------|
| 41. GRANTS AND SUBSIDIES PAID | | |
| Community Projects | - | 546,404 |
| Other Grants and Subsidies Paid | 225,467 | 203,600 |
| Total Grants and Subsidies | 225,467 | 750,004 |

42. GENERAL EXPENSES

Included in General Expenses are the following:

| | | |
|--|-------------------|-------------------|
| Advertising | 326,152 | 139,162 |
| Assessment Rates and Municipal Charges | 2,836,510 | 1,566,189 |
| Audit Fees | 2,138,388 | 2,036,893 |
| Bank Charges | 411,149 | 334,543 |
| Branding of the Municipality | 43,363 | 14,438 |
| Cleaning Materials | 119,262 | 105,186 |
| Conference Fees | 53,414 | 60,604 |
| Driving License Fees | 112,413 | 393,177 |
| Electricity Rural Water Pumps | 1,617,198 | 1,098,306 |
| Entertainment | 210,079 | 224,532 |
| Fuel and Oil | 3,393,605 | 3,004,857 |
| Grave Excavations | 44,785 | 68,613 |
| HR Employee Wellness | 1,981,919 | 2,052,590 |
| IDP Review | 16,445 | 60,298 |
| Insurance | 730,593 | 1,325,172 |
| Internal Audit | 41,651 | 33,588 |
| Legal Costs | 33,561 | 85,516 |
| Levies: SALGA | 620,496 | 532,714 |
| License Fees and Subscriptions | 548,031 | 286,580 |
| Magazines and Reference Work | 3,260 | - |
| Motor Vehicle Expenses | 141,517 | 139,901 |
| Printing and Stationery | 886,497 | 1,221,562 |
| Protective Clothing | 294,450 | 270,680 |
| Sundry Expenses | 238,767 | 543,317 |
| Strategic Planning Expenses | 291,586 | 283,231 |
| Telephone Cost | 1,217,833 | 1,210,634 |
| Tourism Strategy | 85,897 | 227,849 |
| Training Costs | 659,802 | 175,461 |
| Travelling and Subsistence | 2,412,432 | 1,953,922 |
| Water | 71,494 | 143,318 |
| Workmen's Compensation | - | 5,550 |
| Youth Development Programme | 15,355 | 74,334 |
| Total General Expenses | 21,597,900 | 19,672,718 |

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the Municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

No other extra-ordinary expenses were incurred.

43. OTHER GAINS AND LOSSES

| | | |
|---|--------------|--------------|
| Change in Fair Value of Financial Assets designated as at FVTPL | 4,551 | 7,108 |
| Net Other Gains and Losses | 4,551 | 7,108 |

No other gains or losses have been recognised in respect of Loans and Receivables or Held-to-Maturity Investments, other than as disclosed in Note 12 and Impairment Losses recognised/reversed in respect of Trade Receivables (see Notes 4, 5 and 30).

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|------------------|----------------|
| 44. GAINS / LOSSES ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | | |
| Proceeds on Sale of Assets | - | 519,161 |
| Assets Disposed at Carrying Value: | (744,226) | (355,068) |
| Cost of Disposed Assets | (2,194,666) | (1,536,140) |
| Accumulated Depreciation of Disposed Assets | 1,447,251 | 1,167,136 |
| Accumulated Impairment of Disposed Assets | 3,189 | 13,935 |
| Total Gains / Losses on Disposal of Capital Assets | (744,226) | 164,092 |

45. CHANGE IN ACCOUNTING POLICY

45.1 GRAP 20 - Related Parties

The Municipality has developed Accounting Policies to fully comply with GRAP 20 (Related Parties). Previously the Municipality used the principles set out in IPSAS 20 to account for related parties. Management has evaluated the requirements of the Standard and it was found that no adjustments need to be made.

45.2 GRAP 103 - Heritage Assets

The Municipality has taken advantage of the transitional provisions in Directive 4 from the Accounting Standards Board with the implementation of GRAP 103. The Municipality has now identified all Heritage Assets and have it valued in terms of GRAP 103.

The comparative amounts have been restated. The effect of the change in Accounting Policy is as follows:

| | | |
|--|-------------|-------------|
| Increase (Decrease) in Heritage Assets | 6,959,273 | 6,959,273 |
| (Increase) Decrease in Accumulated Surplus | (6,959,273) | (6,959,273) |
| | <u>-</u> | <u>-</u> |

46. CORRECTION OF ERROR

Corrections were made and adjusted to the Accumulated Surplus Account during the financial years ended 30 June 2014 and 30 June 2015. Details of the adjustments are as follows:

Statement of Financial Position:

| | | |
|--|-----------------|-----------------|
| Property, Plant and Equipment | 923,698,842 | 923,981,908 |
| Investment Properties | 383,792 | 383,792 |
| Intangible Assets | 5,004,000 | 5,004,000 |
| Heritage Assets (refer to Note 45) | - | 6,959,273 |
| Non-current Investments | 21,088 | 21,088 |
| Operating Lease Receivables | 63,231 | (25,894) |
| Long-term Receivables | 1,164 | 1,164 |
| Inventories | 63,059,361 | 63,193,061 |
| Receivables from Exchange Transactions | 30,488,661 | 30,488,661 |
| Receivables from Non-exchange Transactions | 13,282,995 | 14,298,932 |
| Cash and Cash Equivalents | 12,210,203 | 12,210,203 |
| Current Portion of Operating Lease Receivables | 31,791 | 31,791 |
| Consumer Deposits | (1,949,136) | (1,949,136) |
| Provisions | (1,413,504) | (1,413,504) |
| Payables from Exchange Transactions | (12,979,185) | (15,815,371) |
| Payables from Non-exchange Transactions | (1,552,637) | (1,552,637) |
| Unspent Conditional Grants and Receipts | (7,095,267) | (7,095,267) |
| VAT Payable | 344,502 | (713,849) |
| Bank Overdraft | (11,924,753) | (11,977,403) |
| Current Portion of Long-term Borrowings | (2,757,975) | (2,757,975) |
| Long-term Liabilities | (3,230,928) | (3,230,928) |
| Employee Benefits | (34,020,228) | (34,020,228) |
| Non-current Provisions | (15,659,850) | (15,659,850) |
| Accumulated Surplus - Opening Balance | (1,022,786,943) | (1,022,786,943) |
| Accumulated Surplus - Prior Period Error | - | 3,176,398 |
| Accumulated Surplus - Change in Accounting Policy (refer to Note 45) | - | (6,959,273) |
| Accumulated Surplus - Surplus (Loss) for the Year | 66,780,777 | 66,207,987 |
| | <u>(0)</u> | <u>(0)</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|-----------|-------------------------|
| 46. CORRECTION OF ERROR (Continued) | | |
| Statement of Financial Performance: | | |
| Fines | | 4,622,474 |
| Rental from Facilities and Equipment | | (25,582) |
| Depreciation and Amortisation | | 33,961 |
| Impairment Losses | | (4,745,509) |
| General Expenses | | (324,434) |
| Loss on Sale of Land | | (133,700) |
| | | <u><u>(572,790)</u></u> |

The details of the reclassifications of correction of errors made are as follows:

46.1 VAT on Departmental Accounts not previously claimed

Management discovered that the VAT charged on the Departmental Accounts have not been claimed back, although the Output VAT portion of the charge was declared and paid over to SARS. In order to recover this financial losses, the Input VAT has subsequently been claimed.

The effect is as follows:

| | | |
|--|-----------------|-----------------|
| Statement of Financial Position: | | |
| (Increase) / Decrease in VAT Payable | 1,517,222 | 1,517,222 |
| (Increase) / Decrease in Accumulated Surplus | (1,517,222) | (894,978) |
| Statement of Financial Performance: | | |
| Increase / (Decrease) In General Expenses | | (622,244) |
| | <u><u>-</u></u> | <u><u>-</u></u> |

46.2 Correction of Operating Lease Asset

During the year, Management revisited the Operating Lease Asset Register to ensure the accuracy and validity of the agreements used in the calculation of the Operating Lease Asset / Liability. The results indicated that the Operating Lease Asset was overstated and the necessary correction was made retrospectively.

The effect is as follows:

| | | |
|---|-----------------|-----------------|
| Statement of Financial Position: | | |
| Increase / (Decrease) in Operating Lease Asset | (89,125) | (89,125) |
| (Increase) / Decrease in Accumulated Surplus | 89,125 | 114,706 |
| Statement of Financial Performance: | | |
| (Increase) / Decrease in Rental from Facilities and Equipment | | (25,582) |
| | <u><u>-</u></u> | <u><u>-</u></u> |

46.3 Erf sold incorrectly accounted for in 2014

During the 2014 Financial Year, erf 5118 was accounted for as transferred. This was however found to be incorrect as the erf only transferred after 30 June 2014. The mistaken was made when the Deed was only requested after 30 June 2014 and it was mistakenly concluded that it transferred before yearend.

The effect is as follows:

| | | |
|---|-----------------|-----------------|
| Statement of Financial Position: | | |
| Increase / (Decrease) in Inventory | 133,700 | 133,700 |
| (Increase) / Decrease in Accumulated Surplus | (133,700) | - |
| Statement of Financial Performance: | | |
| Increase / (Decrease) in Loss with Sale of Property | | (133,700) |
| | <u><u>-</u></u> | <u><u>-</u></u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|--|-------------|-------------|
| 46. CORRECTION OF ERROR (Continued) | | |
| 46.4 Prior year Accruals not recognised | | |
| A number of accruals were not recognised in the 2014 Financial Statements. The expenditure was subsequently accounted for and the respective creditors accounted for. | | |
| The effect is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / Decrease in Payables from Exchange Transactions | (299,320) | (299,320) |
| (Increase) / Decrease in VAT Payable | 1,510 | 1,510 |
| (Increase) / Decrease in Accumulated Surplus | 297,810 | - |
| Statement of Financial Performance: | | |
| Increase / (Decrease) in General Expenses | | 297,810 |
| | <u>-</u> | <u>-</u> |
| 46.5 Bank Reconciling Items cleared | | |
| Items which remained on the Bank Reconciliation could not be verified and no information is available. These were subsequently reversed. | | |
| The effect is as follows: | | |
| Statement of Financial Position: | | |
| Increase / (Decrease) in Cash and Cash Equivalents | (52,650) | (52,650) |
| (Increase) / Decrease in Accumulated Surplus | 52,650 | 52,650 |
| | <u>-</u> | <u>-</u> |
| 46.6 VAT on Bad Debts Written-off incorrectly accounted for | | |
| During the 2014 financial year, Management wrote-off debt amounting to R22 157 090.03 (Exlcuding VAT) against the Provision for Doubtful Debt. During the recording of this write-off, Management wrote the VAT portion of the write-off incorrectly against the VAT control accounts and not the total amount to the Provision. | | |
| The effect is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / Decrease in VAT Payable | (2,577,083) | (2,577,083) |
| (Increase) / Decrease in Accumulated Surplus | 2,577,083 | - |
| Statement of Financial Performance: | | |
| Increase / (Decrease) in Impairment Losses | | 2,577,083 |
| | <u>-</u> | <u>-</u> |
| 46.7 Recognition of Gains during Physical Asset Verification | | |
| A number of Movable Other Assets were verified during the year, which was written-off in the previous financial years. As these Other Assets were verified, the necessary adjustments were made to account for these items. | | |
| The effect is as follows: | | |
| Statement of Financial Position: | | |
| Increase / (Decrease) in Property, Plant and Equipment | 283,066 | 283,066 |
| (Increase) / Decrease in Accumulated Surplus | (283,066) | (317,027) |
| Statement of Financial Performance: | | |
| Increase / (Decrease) in Depreciation and Amortisation | | 33,961 |
| | <u>-</u> | <u>-</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|---------------------------|--------------------------|
| 46. CORRECTION OF ERROR (Continued) | | |
| 46.8 Recognition of Fines Revenue, Debtor and relating Impairment Loss | | |
| During the financial year management embarked on a process to recognise the Revenue generated from Fines, as well as the relating Debtor and Impairment Loss (as required by GRAP 23 and GRAP 104). | | |
| The effect is as follows: | | |
| Statement of Financial Position: | | |
| Increase / (Decrease) in Trade Receivables from Non-exchange Transactions | 1,015,937 | 1,015,937 |
| (Increase) / Decrease in Payables from Exchange Transactions | (2,536,866) | (2,536,866) |
| (Increase) / Decrease in Accumulated Surplus | 1,520,928 | 4,221,046 |
| Statement of Financial Performance: | | |
| (Increase) / Decrease in Fines | | 4,622,474 |
| Increase / (Decrease) in Impairment Losses | | (7,322,592) |
| | <u>-</u> | <u>-</u> |
| 47. CHANGE IN ACCOUNTING ESTIMATES | | |
| The residual values, estimated useful lives and depreciation method were reviewed at 30 June 2015. Adjustments to the useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well. The adjustments are as follows: | | |
| Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of PPE | (5,934,788) | - |
| Increase / (Decrease) in Amortisation due to adjustments to Useful Lives of Intangible Assets | (403,217) | - |
| Increase / (Decrease) in Depreciation of PPE | <u>(6,338,005)</u> | <u>-</u> |
| Depreciation and Amortisation as previously stated | 68,515,892 | - |
| Adjustment due to Change in Accounting Estimate | (6,338,005) | - |
| Depreciation and Amortisation as per Note 35 | <u>62,177,887</u> | <u>-</u> |
| 48. CASH GENERATED BY OPERATIONS | | |
| Surplus / (Deficit) for the Year | (43,470,691) | (66,207,989) |
| Adjustment for: | | |
| Correction of Prior Year Errors | - | (341,957) |
| Depreciation and Amortisation | 62,177,887 | 68,118,102 |
| Impairment Losses on Property, Plant and Equipment | 84,818 | 52,915 |
| Losses / (Gains) on Disposal of Property, Plant and Equipment | 744,226 | (164,092) |
| Fair Value adjustment of Non-current Investment | (4,551) | (7,108) |
| Profit on Sale of Land | (978,624) | 69,756 |
| Contribution to Retirement Benefit Liabilities | 2,626,736 | 2,779,266 |
| Contribution to Non-current Provisions | 790,822 | 752,806 |
| Contribution to Long Service Awards Liability | 299,323 | - |
| Contribution to Impairment Provision | 30,812,313 | 43,133,120 |
| Operating surplus before working capital changes | <u>53,082,259</u> | <u>48,184,818</u> |
| Decrease/(Increase) in Inventories | (110,853) | (491,631) |
| Decrease/(Increase) in Receivables from Exchange Transactions | (16,040,818) | (13,475,016) |
| Decrease/(Increase) in Receivables from Non-exchange Transactions | (23,850,197) | (14,312,231) |
| Decrease/(Increase) in Operating Lease Assets | 752 | 25,602 |
| Increase/(Decrease) in Consumer Deposits | 163,168 | 124,095 |
| Increase/(Decrease) in Payables from Exchange Transactions | 3,323,837 | 1,474,568 |
| Increase/(Decrease) in Payables from Non-exchange Transactions | 192,724 | 708,295 |
| Increase/(Decrease) in Conditional Grants and Receipts | (3,334,588) | (5,024,544) |
| Increase/(Decrease) in Payables from VAT Payable | 843,202 | (4,555,308) |
| Cash generated by / (utilised in) Operations | <u>14,269,486</u> | <u>12,658,650</u> |

49. NON-CASH INVESTING AND FINANCING TRANSACTIONS

The Municipality did not enter into any Non-cash Investing and Financing Transactions during the 2015 financial year.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|-----------|-----------|
| 50. FINANCING FACILITIES | | |
| Unsecured Bank Overdraft Facility, reviewed annually and payable at call: | | |
| - Amount used | - | - |
| - Amount unused | 1,000,000 | 1,000,000 |
| | <u>-</u> | <u>-</u> |
| Unsecured Credit Card Facility, reviewed annually and payable monthly: | | |
| - Amount used | - | - |
| - Amount unused | 50,000 | 50,000 |
| | <u>-</u> | <u>-</u> |
| Unsecured Fleet Card Facility, reviewed annually and payable monthly: | | |
| - Amount used | - | - |
| - Amount unused | 800,000 | 800,000 |
| | <u>-</u> | <u>-</u> |

51. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

| | | |
|---|-------------|-------------|
| Long-term Liabilities (See Note 19) | 3,212,014 | 5,988,903 |
| Used to finance Property, Plant and Equipment - at cost | (3,212,014) | (5,988,903) |
| Sub-total | <u>-</u> | <u>-</u> |
| Cash set aside for the Repayment of Long-term Liabilities | - | - |
| Cash invested for Repayment of Long-term Liabilities | <u>-</u> | <u>-</u> |

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

52. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

52.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

| | | |
|---|---------------------------|--------------------------|
| Opening balance | 95,735,235 | - |
| Unauthorised Expenditure current year | 65,120,484 | 95,735,235 |
| Approved by Council or condoned | - | - |
| Unauthorised Expenditure awaiting authorisation | <u>160,855,719</u> | <u>95,735,235</u> |

| Incident | Disciplinary Steps / Criminal Proceedings |
|--|---|
| <i>Budgeted votes exceeded:-</i> | <i>Council to condone expenditure.</i> |
| <i>Executive and Council - R2 522 900 (R3 186 638)</i> | |
| <i>Finance and Administration - R0 (R2 094 284)</i> | |
| <i>Planning and Development - R9 695 097 (R8 645 803)</i> | |
| <i>Community and Social Services - R10 002 399 (R10 529 851)</i> | |
| <i>Housing - R2 434 101 (R2 534 451)</i> | |
| <i>Waste Management - R3 798 312 (R10 824 142)</i> | |
| <i>Roads and Transport - R3 937 744 (R6 623 486)</i> | |
| <i>Water - R13 031 760 (R23 832 823)</i> | |
| <i>Electricity - R19 073 535 (R27 463 757)</i> | |
| <i>Other - R715 637 (R0)</i> | |

52.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

| | | |
|---|-----------------------|-----------------------|
| Opening balance | 872,216 | 798,860 |
| Fruitless and Wasteful Expenditure current year | - | 73,356 |
| Condoned or written off by Council | - | - |
| Fruitless and Wasteful Expenditure awaiting condonement | <u>872,216</u> | <u>872,216</u> |

| Incident | Disciplinary Steps / Criminal Proceedings |
|------------------------------|---|
| <i>None were identified.</i> | |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|-------------------|-------------------|
| 52. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued) | | |
| 52.3 Irregular Expenditure | | |
| Reconciliation of Irregular Expenditure: | | |
| Opening balance | 52,491,106 | 39,350,217 |
| Irregular Expenditure current year | 13,651,487 | 13,140,889 |
| Condoned or written off by Council | - | - |
| Irregular Expenditure awaiting condonement | <u>66,142,593</u> | <u>52,491,106</u> |

| Incident | Disciplinary Steps / Criminal Proceedings |
|---|---|
| <i>The Irregular Expenditure identified was inspected and it can be categorised as follows:</i> | |
| The required number of quotations (3) were not obtained. These items were also not reported to council as a deviation during the financial year and is therefore irregular = R1 149 545. | |
| Tax clearance certificates are not in place for certain costs incurred above R15 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R1 431 613. | |
| MBD 4 forms (declaration of interests) are not in place for certain costs incurred above R10 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R2 829 390. | |
| MBD 1 forms are not in place for certain costs incurred above R10 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R8 240 938. | |

The Municipality is still in process of ensuring the completeness of its Irregular Expenditure (as disclosed above), as this an on-going process.

53. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

53.1 Contributions to organised local government - SALGA

| | | |
|---|-----------|-----------|
| Opening Balance | - | - |
| Council Subscriptions | 650,496 | 549,386 |
| Amount Paid - current year | (650,496) | (549,386) |
| Amount Paid - previous years | - | - |
| Balance Unpaid (included in Creditors) | <u>-</u> | <u>-</u> |

53.2 Audit Fees

| | | |
|---|-------------|-------------|
| Opening Balance | - | - |
| Current year Audit Fee | 2,437,762 | 2,036,893 |
| Amount Paid - current year | (2,437,762) | (2,036,893) |
| Amount Paid - previous years | - | - |
| Balance Unpaid (included in Creditors) | <u>-</u> | <u>-</u> |

53.3 VAT

The net of VAT input payables and VAT output receivables are shown in Notes 5 and 19. All VAT returns have been submitted by the due date throughout the year.

53.4 PAYE, Skills Development Levy and UIF

| | | |
|---|----------------|-------------|
| Opening Balance | - | 445,612 |
| Current year Payroll Deductions | 7,493,049 | 6,793,909 |
| Amount Paid - current year | (6,892,190) | (6,793,909) |
| Amount Paid - previous years | - | (445,612) |
| Balance Unpaid (included in Creditors) | <u>600,859</u> | <u>-</u> |

53.5 Pension and Medical Aid Deductions

| | | |
|---|--------------|--------------|
| Opening Balance | - | - |
| Current year Payroll Deductions and Council Contributions | 13,525,815 | 12,296,351 |
| Amount Paid - current year | (13,525,815) | (12,296,351) |
| Amount Paid - previous years | - | - |
| Balance Unpaid (included in Creditors) | <u>-</u> | <u>-</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

53. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)

53.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

| | Total | Outstanding up to 90 days | Outstanding more than 90 days |
|--|---------------|--|--|
| 30 June 2015 | | | |
| Councillor Kivedo MC | 11,124 | 3,389 | 7,735 |
| Councillor Nyl GL | 5,974 | 5,336 | 639 |
| Councillor Witbooi WA | 3,557 | 1,923 | 1,634 |
| Councillor Swanepoel B | 1,809 | 953 | 857 |
| Total Councillor Arrear Consumer Accounts | 22,464 | 11,600 | 10,864 |
| 30 June 2014 | | | |
| Councillor Kivedo MC | 14,795 | 4,469 | 10,326 |
| Councillor Jaftha AF | 4,759 | 3,820 | 939 |
| Total Councillor Arrear Consumer Accounts | 19,554 | 8,289 | 11,265 |

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

| | Highest amount outstanding | Ageing |
|------------------------|---------------------------------------|---------------|
| 30 June 2015 | | |
| Councillor Kivedo MC | 16,455 | > 90 Days |
| Councillor Nyl GL | 770 | > 90 Days |
| Councillor Witbooi WA | 1,634 | > 90 Days |
| Councillor Jaftha AF | 2,601 | > 90 Days |
| Councillor Swanepoel B | 857 | > 90 Days |
| 30 June 2014 | | |
| Councillor Kivedo MC | 10,326 | > 90 Days |
| Councillor Jaftha AF | 1,180 | > 90 Days |

53.7 Non-Compliance with the Municipal Finance Management Act

The Municipality incurred non-compliance to the following section of the indicated chapters of the MFMA during the year under review:

| Description | Chapter | Section | Sub-section |
|--|----------------|----------------|--------------------|
| General Responsibilities | 7 | 52 | (d) |
| Revenue Management | 8 | 64 | (3) |
| Monthly Budget Statements | 8 | 71 | (i) to (v) |
| Mid-year Budget and Performance Assessment | 8 | 72 | (1) to (3) |
| Information to be placed on Websites of Municipalities | 8 | 75 | (1) to (2) |
| Supply Chain Management Policy to comply with Prescribed Framework | 11 | 112 | |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

53. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)

53.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the Municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

| Reasons | Month | Successful Bidder | One Quotation | Two Quotations | Total |
|--|----------------|-------------------|---------------|----------------|-----------|
| In all instances, only one (1) local supplier could provide the Municipality with the required goods. During July 2014, R29 298 was paid to LPD Hydraulics for the repair of a truck. R27 132 was paid to procure tarr from Colas, as only two (2) service providers exist and the other did not have any tarr in stock. | July 2014 | Various Suppliers | 92,462 | - | 92,462 |
| In most instances, only one (1) local supplier could provide the Municipality with the required goods. During August 2014, R27 132 was paid to Colas (which is included under Two Quotations) as only two service providers exist which can supply the Municipality with tarr. | August 2014 | Various Suppliers | 31,885 | 32,782 | 64,667 |
| R481 425 was paid to Free State Transformers, as this is the only supplier listed on the Municipality's database. The transformer had to be transferred to Bloemfontein as it first had to be inspected to determine the fault. The remaining deviations is the result of only one (1) local suppliers being able to provide the required goods. | September 2014 | Various Suppliers | 612,344 | - | 612,344 |
| R27 132 of the deviated total is represented by payments made to NLS Enterprise for an urgency / emergency. In the majority of instances, no more than one (1) supplier could submit quotations to the Municipality. | October 2014 | Various Suppliers | 80,675 | 5,000 | 85,675 |
| For the following Notices, only one (1) or two (2) quotations were received: Notice 107/2014 - Farad Engineering (R175 915); Notice 102/2014 - Tecrover Projects (R199 400); and Notice 103/2014 - Tecrover Projects (R198 899). In the majority of instances, no more than one (1) supplier could submit quotations to the Municipality. | November 2014 | Various Suppliers | 232,169 | 460,637 | 692,806 |
| R3 000 was paid to Janes Funeral Service, as their tax clearance certificate was valid. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods. | December 2014 | Various Suppliers | 10,201 | 3,229 | 13,430 |
| R44 643 was paid to Prestige, as only two local suppliers exist and Prestige is the lowest and best quality. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods. | February 2015 | Various Suppliers | 7,359 | 48,565 | 55,923 |
| R36 550 was paid to Hanover Karoo Gariep as this was the only guesthouse with accomodation available. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods. | March 2015 | Various Suppliers | 74,198 | 78,183 | 152,380 |
| For Notice 13/2015, amounting to R174 897, only Irrigation Equipment submitted a quote. | April 2015 | Various Suppliers | 174,897 | 7,180 | 182,077 |
| For Notice 3/2015, amounting to R176 803, only Tosas submitted a quote. R190 281 was paid to Aga Mzansi, as only two quotes were received for Notice 6/2015 and the aforementioned quote was awarded to amount. For Notice 21/2015, amounting to R174 215, Siphithuthando Trading and Project was awarded the quote as only two (2) quotes were submitted. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods. | May 2015 | Various Suppliers | 415,642 | 664,288 | 1,079,930 |
| Swift Print is the only local supplier that can print the Annual Report (R117 673), while the remaining items is due to the number of local suppliers available. | June 2015 | Various Suppliers | 134,636 | 4,433 | 139,069 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | | 2015 R | 2014 R |
|--|--|-----------|-----------|
| 53. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued) | | | |

53.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water Losses were as follows and are not recoverable:

Electricity:

| | | Lost Units | Tariff | Value |
|---------------------|--------------------------------|------------|--------|-----------|
| 30 June 2015 | Unaccounted Electricity Losses | 6,700,414 | 0.7900 | 5,293,327 |
| 30 June 2014 | Unaccounted Electricity Losses | 7,428,611 | 0.7400 | 5,497,172 |

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Volumes in kWh/year:

| | | |
|---|--------------|--------------|
| System Input Volume | 56,817,394 | 57,021,523 |
| Billed Consumption | (45,571,588) | (45,031,190) |
| Unaccounted | 11,245,806 | 11,990,333 |
| Normal distribution losses - % of electricity purchases | (4,545,392) | (4,561,722) |
| Distribution Loss | 6,700,414 | 7,428,611 |
| Percentage Distribution Loss | 11.79% | 13.03% |

Water:

| | | Lost Units | Tariff | Value |
|---------------------|--------------------------|------------|--------|---------|
| 30 June 2015 | Unaccounted Water Losses | 371,542 | 0.8361 | 310,646 |
| 30 June 2014 | Unaccounted Water Losses | 651,544 | 0.7632 | 497,258 |

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

54. COMMITMENTS FOR EXPENDITURE

54.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

| | | |
|----------------|---|------------|
| Infrastructure | - | 13,902,823 |
| Other | - | - |

- Approved but Not Yet Contracted for:-

| | | |
|----------------|---|---|
| Infrastructure | - | - |
| Other | - | - |

Total Capital Commitments

| | |
|---|------------|
| - | 13,902,823 |
|---|------------|

This expenditure will be financed from:

| | | |
|-------------------|---|------------|
| Government Grants | - | 13,902,823 |
| Own Resources | - | - |
| - | - | 13,902,823 |

54.2 Lease Commitments

Non-cancellable Operating Lease Commitments are disclosed in Note 7.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

54. COMMITMENTS FOR EXPENDITURE (Continued)

54.3 Other Commitments

The Municipality has entered into a contract with Nationwide Security for the provision of security services, which will end during the 2015 financial year.

The Municipality has entered into a contract with SmartMetro for the development of a revenue enhancement strategy and the implementation thereof. No claims have been made by the contractor in respect to any savings made.

The Municipality furthermore entered into a contract with OMA Chartered Accountants for the review and identification of possible VAT savings. To date no savings have been claimed and the Municipality does not have any outstanding commitment in respect to the contractor.

The Municipality has entered into a contract with Fortogenic Solutions for the Provision of an Employee Wellness and Health Programme. At yearend, the remaining contract value amounted to R1 205 970 (2014: R 2 558 070).

55. FINANCIAL INSTRUMENTS

55.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the Municipality are classified as follows:

| <u>Financial Assets</u> | <u>Classification</u> | | |
|---|-----------------------|------------|------------|
| Non-current Investments | | | |
| Listed Investments | Fair value | 25,639 | 21,088 |
| Long-term Receivables | | | |
| Other Loans | Amortised cost | 1,264 | 1,164 |
| Receivables from Exchange Transactions | | | |
| Electricity | Amortised cost | 9,805,926 | 10,218,377 |
| Refuse | Amortised cost | 3,525,772 | 3,068,820 |
| Sewerage | Amortised cost | 6,597,328 | 6,053,654 |
| Water | Amortised cost | 11,820,505 | 10,253,713 |
| Other Receivables | Amortised cost | 168,638 | 891,858 |
| Receivables from Non-exchange Transactions | | | |
| Assessment Rates Debtors | Amortised cost | 6,414,837 | 6,451,166 |
| Payments made in Advance | Amortised cost | - | 74,698 |
| Sundry Deposits | Amortised cost | 985,250 | 1,014,610 |
| Sundry Debtors | Amortised cost | 14,545,800 | 6,758,459 |
| Cash and Cash Equivalents | | | |
| Call Deposits | Amortised cost | 11,284,644 | 10,522,283 |
| Notice Deposits | Amortised cost | 901,386 | 772,511 |
| Bank Balances | Amortised cost | 95,714 | 915,409 |
| Cash Floats and Advances | Fair value | 2,800 | 1,400 |

SUMMARY OF FINANCIAL ASSETS

Financial Assets at Amortised Cost:

| | | | |
|--|--------------------------|------------|------------|
| Long-term Receivables | Other Loans | 1,264 | 1,164 |
| Receivables from Exchange Transactions | Electricity | 9,805,926 | 10,218,377 |
| Receivables from Exchange Transactions | Refuse | 3,525,772 | 3,068,820 |
| Receivables from Exchange Transactions | Sewerage | 6,597,328 | 6,053,654 |
| Receivables from Exchange Transactions | Water | 11,820,505 | 10,253,713 |
| Receivables from Exchange Transactions | Other Debtors | 168,638 | 891,858 |
| Receivables from Non-exchange Transactions | Assessment Rates Debtors | 6,414,837 | 6,451,166 |
| Receivables from Non-exchange Transactions | Payments made in Advance | - | 74,698 |
| Receivables from Non-exchange Transactions | Sundry Deposits | 985,250 | 1,014,610 |
| Receivables from Non-exchange Transactions | Sundry Debtors | 14,545,800 | 6,758,459 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | | 2015 R | 2014 R |
|---|------------------------------|--------------------------|--------------------------|
| 55. FINANCIAL INSTRUMENTS (Continued) | | | |
| Cash and Cash Equivalents | Call Deposits | 11,284,644 | 10,522,283 |
| Cash and Cash Equivalents | Notice Deposits | 901,386 | 772,511 |
| Cash and Cash Equivalents | Bank Balances | 95,714 | 915,409 |
| | | <u>66,147,064</u> | <u>56,996,720</u> |
| Financial Assets at Fair Value: | | | |
| Non-current Investments | Listed Investments | 25,639 | 21,088 |
| Cash and Cash Equivalents | Cash Floats and Advances | 2,800 | 1,400 |
| | | <u>28,439</u> | <u>22,488</u> |
| Total Financial Assets | | <u>66,175,504</u> | <u>57,019,208</u> |
| FINANCIAL LIABILITIES: | | | |
| In accordance with GRAP 104.13 the Financial Liabilities of the Municipality are classified as follows: | | | |
| | Financial Liabilities | Classification | |
| Long-term Liabilities | | | |
| Annuity Loans | Amortised cost | 4,032,183 | 8,746,879 |
| Payables from Exchange Transactions | | | |
| Trade Creditors | Amortised cost | 1,816,880 | 1,015,073 |
| Payments Received in Advance | Amortised cost | 1,449,985 | 1,852,624 |
| Retentions | Amortised cost | 449,602 | 1,286,997 |
| Staff Bonuses | Amortised cost | 2,056,538 | 1,873,069 |
| Sundry Deposits | Amortised cost | 266,743 | 241,805 |
| Other Creditors | Amortised cost | 6,896,922 | 5,234,939 |
| Salary Control Account | Amortised cost | 600,859 | - |
| Accrued Leave | Amortised cost | 5,602,285 | 4,311,470 |
| Payables from Non-exchange Transactions | | | |
| Payments Received in Advance | Amortised cost | 1,609,422 | 1,416,698 |
| Bank Overdraft | | | |
| Bank Overdraft | Amortised cost | 13,564,441 | 11,977,403 |
| Current Portion of Long-term Liabilities | | | |
| Annuity Loans | Amortised cost | 820,168 | 2,757,975 |
| SUMMARY OF FINANCIAL LIABILITIES | | | |
| Financial Liabilities at Amortised Cost: | | | |
| Long-term Liabilities | Annuity Loans | 4,032,183 | 8,746,879 |
| Payables from Exchange Transactions | Trade Creditors | 1,816,880 | 1,015,073 |
| Payables from Exchange Transactions | Payments Received in Advance | 1,449,985 | 1,852,624 |
| Payables from Exchange Transactions | Retentions | 449,602 | 1,286,997 |
| Payables from Exchange Transactions | Staff Bonuses | 2,056,538 | 1,873,069 |
| Payables from Exchange Transactions | Sundry Deposits | 266,743 | 241,805 |
| Payables from Exchange Transactions | Other Creditors | 6,896,922 | 5,234,939 |
| Payables from Exchange Transactions | Salary Control Account | 600,859 | - |
| Payables from Exchange Transactions | Accrued Leave | 5,602,285 | 4,311,470 |
| Payables from Non-exchange Transactions | Payments Received in Advance | 1,609,422 | 1,416,698 |
| Bank Overdraft | Bank Overdraft | 13,564,441 | 11,977,403 |
| Current Portion of Long-term Liabilities | Annuity Loans | 820,168 | 2,757,975 |
| | | <u>39,166,030</u> | <u>40,714,933</u> |
| Total Financial Liabilities | | <u>39,166,030</u> | <u>40,714,933</u> |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 **2014**
R **R**

55. FINANCIAL INSTRUMENTS (Continued)

55.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the Municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the Municipality and other parties as well as the current payment ratios of the Municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the Municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2015, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the Municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

| 30 June 2015 | Level 1 R | Level 2 R | Level 3 R | Total R |
|---|----------------------|----------------------|----------------------|--------------------|
| FINANCIAL ASSETS | | | | |
| Financial Instruments at Fair Value: | | | | |
| Listed Investments | 25,639 | - | - | 25,639 |
| Cash and Cash Equivalents | - | 2,800 | - | 2,800 |
| Total Financial Assets | 25,639 | 2,800 | - | 28,439 |
| Total Financial Instruments | 25,639 | 2,800 | - | 28,439 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 | | | 2014 |
|--|----------------|----------------|----------------|---------------|
| | R | | | R |
| 55. FINANCIAL INSTRUMENTS (Continued) | | | | |
| 30 June 2014 | Level 1 | Level 2 | Level 3 | Total |
| | R | R | R | R |
| FINANCIAL ASSETS | | | | |
| Financial Instruments at Fair Value: | | | | |
| Listed Investments | 21,088 | - | - | 21,088 |
| Cash and Cash Equivalents | - | 1,400 | - | 1,400 |
| Total Financial Assets | 21,088 | 1,400 | - | 22,488 |
| Total Financial Instruments | 21,088 | 1,400 | - | 22,488 |

55.3 Capital Risk Management

The Municipality manages its capital to ensure that the Municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The Municipality's overall strategy remains unchanged from 2010.

The capital structure of the Municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 19, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 22 and the Statement of Changes in Net Assets.

Gearing Ratio

In terms of the Municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing 90,00%. This aggressive ratio is as a result of the development challenges faced by the Municipality. The rate of borrowing is well below market related rates.

The gearing ratio at the year-end was as follows:

| | | |
|---------------------------------|------------------|------------------|
| Debt | 3,212,014 | 5,988,903 |
| Cash and Cash Equivalents | 1,282,697 | (232,800) |
| Net Debt | 4,494,711 | 5,756,104 |
| Equity | 916,891,138 | 960,361,829 |
| Net debt to equity ratio | 0.49% | 0.60% |

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the Municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

55.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, Municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The Municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the Municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

55.5 Significant Risks

It is the policy of the Municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the Municipality is exposed on the reporting date.

The Municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

55. FINANCIAL INSTRUMENTS (Continued)

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the Municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the Municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 56.8 to the Annual Financial Statements.

55.6 Market Risk

The Municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 56.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the Municipality's exposure to market risks or the manner in which it manages and measures the risk.

55.6.1 Foreign Currency Risk Management

The Municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

55.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The Municipality is not exposed to credit interest rate risk as the Municipality has no borrowings.

The Municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 56.8 below:

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 **2014**
R **R**

55. FINANCIAL INSTRUMENTS (Continued)

Cash and Cash Equivalents:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the Municipality's:

Surplus for the year ended 30 June 2015 would have increased / decreased by RXX (2014: RXX). This is mainly attributable to the Municipality's exposure to interest rates on its variable rate investments.

55.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. The Municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Municipality uses its own trading records to assess its major customers. The Municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The Municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The Municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the Municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The Municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the Municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The Municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

| | | |
|--|--------------------|--------------------|
| Fixed Deposit Investments | 25,639 | 21,088 |
| Long-term Receivables | 1,264 | 1,164 |
| Receivables from Exchange Transactions | 93,769,200 | 75,807,201 |
| Receivables from Non-exchange Transactions | 60,517,582 | 37,123,720 |
| Bank, Cash and Cash Equivalents | (1,282,697) | 232,800 |
| Maximum Credit and Interest Risk Exposure | 153,030,988 | 113,185,973 |

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2014 R |
|---|--------------------|-------------------|
| 55. FINANCIAL INSTRUMENTS (Continued) | | |
| The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows: | | |
| | % | % |
| Consumer Debtors: | | |
| - Household | 81.58% | 78.71% |
| - Industrial / Commercial | 6.15% | 6.90% |
| - National and Provincial Government | 12.27% | 14.39% |
| - Other Classes | 0.00% | 0.00% |
| Total Credit Risk | 100.00% | 100.00% |
| Bank and Cash Balances | | |
| ABSA Bank Ltd | (2,186,903) | (585,527) |
| First National Bank | 2,474 | 2,582 |
| Nedbank | 892,471 | 730,274 |
| Standard Bank | 6,461 | 84,071 |
| Cash Equivalents | 2,800 | 1,400 |
| Total Bank and Cash Balances | (1,282,697) | 232,800 |
| Credit quality of Financial Assets: | | |
| The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates: | | |
| Long-term Receivables | | |
| Group 1 | 1,264 | 1,164 |
| Total Long-term Receivables | 1,264 | 1,164 |
| Receivables from Exchange Transactions | | |
| Counterparties without external credit rating:- | | |
| Group 1 | 3,916,652 | 4,386,769 |
| Group 2 | 28,001,518 | 26,099,652 |
| Group 3 | 61,851,031 | 45,320,781 |
| | 93,769,200 | 75,807,202 |
| Total Receivables from Exchange Transactions | 93,769,200 | 75,807,202 |
| Receivables from Non-exchange Transactions | | |
| Group 1 | 1,437,579 | 1,079,301 |
| Group 2 | 4,977,258 | 5,371,865 |
| Group 3 | 10,499,979 | 7,067,368 |
| Total Receivables from Non-exchange Transactions | 16,914,817 | 13,518,534 |

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

55. FINANCIAL INSTRUMENTS (Continued)

55.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the Municipality's short, medium and long-term funding and liquidity management requirements. The Municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 51 is a listing of additional undrawn facilities that the Municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The Municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| Description | Note ref in AFS | Average effective Interest Rate | Total | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years |
|---|-----------------------|---------------------------------------|-------------------|---------------------|------------------|------------------|------------------|----------------------|
| | # | % | R | R | R | R | | R |
| 30 June 2015 | | | | | | | | |
| Non-interest Bearing | | | 20,749,238 | 20,749,238 | - | - | - | - |
| - Payables from Exchange transactions | 15 | 0.00% | 19,139,816 | 19,139,816 | - | - | - | - |
| - Payables from Non-exchange transactions | 16 | 0.00% | 1,609,422 | 1,609,422 | - | - | - | - |
| | | | - | | | | | |
| Variable Interest Rate Instruments | | | 16,466,852 | 14,725,405 | 1,160,964 | 580,482 | - | - |
| - Bank Overdraft | 5 | 9.50% | 13,564,441 | 13,564,441 | - | - | - | - |
| - ABSA Bank | 19 | 9.75% | 2,902,411 | 1,160,964 | 1,160,964 | 580,482 | - | - |
| Fixed Interest Rate Instruments | | | 2,319,573 | 486,124 | 486,124 | 972,248 | 375,077 | - |
| - DBSA | 19 | 10.00% | 444,188 | 111,047 | 111,047 | 222,094 | - | - |
| - DBSA | 19 | 12.00% | 1,875,385 | 375,077 | 375,077 | 750,154 | 375,077 | - |
| | | | 39,535,662 | 35,960,767 | 1,647,088 | 1,552,730 | 375,077 | - |
| 30 June 2014 | | | | | | | | |
| Non-interest Bearing | | | 17,232,676 | 17,232,676 | - | - | - | - |
| - Payables from Exchange transactions | 15 | 0.00% | 15,815,978 | 15,815,978 | - | - | - | - |
| - Payables from Exchange transactions | 16 | 0.00% | 1,416,698 | 1,416,698 | - | - | - | - |
| Variable Interest Rate Instruments | | | 16,040,778 | 13,138,368 | 1,160,964 | 1,741,446 | - | - |
| - Bank Overdraft | 5 | 9.50% | 11,977,403 | 11,977,403 | - | - | - | - |
| - ABSA Bank | 19 | 9.50% | 4,063,375 | 1,160,964 | 1,160,964 | 1,741,446 | - | - |
| Fixed Interest Rate Instruments | | | 3,180,774 | 486,124 | 486,124 | 972,248 | 1,236,278 | - |
| - DBSA | 19 | 10.00% | 555,235 | 111,047 | 111,047 | 222,094 | 111,047 | - |
| - DBSA | 19 | 12.00% | 2,625,539 | 375,077 | 375,077 | 750,154 | 1,125,231 | - |
| | | | 36,454,228 | 30,857,168 | 1,647,088 | 2,713,694 | 1,236,278 | - |

The Municipality has access to financing facilities, the total unused amount which is R1 000 000 (2014: R1 000 000), at the reporting date. The Municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The Municipality expects to maintain current debt to equity ratio. This will be achieved through increased service tariff charges and the increased use of unsecured bank loan facilities.

55.9 Other Price Risks

The Municipality is not exposed to equity price risks arising from equity investments as the Municipality does not trade these investments.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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56. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the Municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R7 160 963 (2014: R6 460 521) represents contributions payable to these plans by the Municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED CONTRIBUTION SCHEMES

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the investment reserve of the fund amounted to R1,967 (30 June 2012: R0) million, with a funding level of 99,7% (30 June 2012: 99,4%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R31,425 (30 June 2012: R(7,980)) million, with funding levels of 100,2% and 105,1% (30 June 2012: 99,9% and 108,0%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2012.

The statutory valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R1 310,754 (30 June 2009: R1 357,463) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

SALA Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R10 439,2 (30 June 2012: R8 753,4) million, with funding levels of 100,0% (30 June 2012: 100,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

SAMWU Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2008.

The statutory valuation performed as at 30 June 2008 revealed that the assets of the fund amounted to R2 445,9 (30 June 2005: R1 511,5) million, with funding levels of 100,0% (30 June 2009: 100,0%). The contribution rate paid by the members (7,50%) and Council (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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57. RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

57.1 Interest of Related Parties

Councillors and/or management of the municipality had relationships with businesses during the financial period as indicated below:

| Name of Related Person | Designation | Description of Related Party Relationship |
|------------------------|-----------------------------------|--|
| Manuel MF | Director: Chief Financial Officer | Institute of Municipal Finance Officers (section 21 company) |

57.2 Services rendered to Related Parties

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

| | Rates Charges R | Service Charges R | Sundry Charges R | Total Charges R |
|--|-----------------------|-------------------------|------------------------|-----------------------|
| For the Year ended 30 June 2015 | | | | |
| Councillors | 38,049 | 80,223 | 10,045 | 128,317 |
| Municipal Manager and Section 57 Personnel | 25,661 | 45,850 | 9,433 | 80,944 |
| Total Services | 63,710 | 126,073 | 19,478 | 209,261 |
| For the Year ended 30 June 2014 | | | | |
| Councillors | 36,318 | 66,525 | 8,759 | 111,602 |
| Municipal Manager and Section 57 Personnel | 24,323 | 42,608 | 8,848 | 75,778 |
| Total Services | 60,640 | 109,133 | 17,607 | 187,380 |

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

57.3 Loans granted to Related Parties

In terms of the MFMA, the Municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

57.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Appendix G, Statement of Remuneration of Management, to the Annual Financial Statements.

57.5 Purchases from Related Parties

The Municipality did not buy goods from any companies which can be considered to be Related Parties.

58. CONTINGENT LIABILITIES

Landfill Sites

The Municipality has three active landfill sites. It has been identified that the landfill sites situated in Britstown and Hanover are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 R | 2015 R |
|---|-------------------------|-------------------------|
| 58. CONTINGENT LIABILITIES (Continued) | | |
| Department of Safety and Liaison: Motor Registration Fees | <u>1,355,739</u> | <u>1,355,739</u> |
| <p>The Municipality received correspondence from the Department of Safety and Liaison (DSL) informing us that the Municipality owes the DSL outstanding amounts for Motor Registration Fees. The amount that DSL claims that the Municipality owes, amounted to R1 355 739.</p> <p>The Municipality is disputing this claim as it has made regular and continuous payments to the DSL. Motor registration fees were deposited directly into the bank account of DSL.</p> <p>The Chief Financial Officers and delegations of both the EM and DSL met and agree that a proper investigation should be conducted into these claims of outstanding fees.</p> <p>To date the investigation has not taken place and will be conducted before the end of the 2014/2015 financial year of DSL. A complete report will be prepared after the investigation has been completed. The amount of R1 355 739 that the DSL claims that the Municipality owes them has therefore not yet been substantiated and the exact amount will only be determined once the investigation has been completed.</p> | | |
| Telkom SA Limited | <u>35,568</u> | <u>35,568</u> |
| <p>The Municipality has been summonsed for an amount of R35 568, plus interest at 15.5% per annum. The Municipality is busy addressing this matter.</p> | | |
| Katy Sigonyela | <u>50,000</u> | <u>-</u> |
| <p>The Municipality is being sued by the abovementioned plaintiff for a erf paid for, but never transferred. The erf in question is Erf 405, Nonzwakazi. The Municipality is still investigating the matter.</p> | | |
| 59. CONTINGENT ASSETS | | |
| <p>The Municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.</p> | | |
| 60. IN-KIND DONATIONS AND ASSISTANCE | | |
| <p>The Municipality did not receive any In-kind Donations and Assistance during the year under review.</p> | | |
| 61. PRIVATE PUBLIC PARTNERSHIPS | | |
| <p>The Municipality was not a party to any Private Public Partnerships during the year under review.</p> | | |
| 62. EVENTS AFTER THE REPORTING DATE | | |
| <p>No events having financial implications requiring disclosure occurred subsequent to 30 June 2015.</p> | | |
| 63. COMPARATIVE FIGURES | | |
| <p>The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note 45) and Prior Period Errors (Note 46).</p> | | |
| 64. GOING CONCERN ASSESSMENT | | |
| <p>Management considered the following matters relating to the Going Concern:</p> <p>(i) On 31 May 2013 the Council adopted the 2013/14 to 2015/16 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of Municipal services to residents reflected that the Budget was cash-backed over the three-year period.</p> <p>(ii) The Municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.</p> <p>(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.</p> <p>(iv) As the Municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.</p> | | |
| <p>Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.</p> | | |

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX A
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2015

| Details | Original Loan Amount | Interest Rate | Loan Number | Redeemable | Balance at 30 June 2014 | Received during the Period | Redeemed/ Written Off during Period | Balance at 30 June 2015 |
|-----------------------------|----------------------------|------------------|----------------|------------|----------------------------|----------------------------------|---|----------------------------|
| ANNUITY LOANS | R | | | | R | R | R | R |
| DBSA | 1,809,000 | 10.00% | 1150 563 | 2016/03/31 | 403,533 | - | (191,944) | 211,589 |
| DBSA | 4,981,693 | 12.00% | 1150 566 | 2017/03/31 | 1,899,134 | - | (560,979) | 1,338,155 |
| ABSA | 9,000,000 | 9.00% | 30 3336 7955 | 2016/03/31 | 3,686,237 | - | (2,023,967) | 1,662,271 |
| Total Annuity Loans | 15,790,693 | | | | 5,988,904 | - | (2,776,890) | 3,212,014 |
| | | | | | | | | |
| TOTAL EXTERNAL LOANS | 15,790,693 | | | | 5,988,904 | - | (2,776,890) | 3,212,014 |

ANNUITY LOANS:

DBSA loan (1150 563):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R1 809 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R111 047.

DBSA loan (1150 566):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R4 981 693 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R375 077.

ABSA loan (30 3336 7955):

Structured secured 5 year loan for the purchase of vehicles. Original loan capital of R9 000 000 is repayable monthly in fixed instalments of capital and fixed rate interest of R194 352.

Note: The rates of interest payable on the above structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2015

| Description | Cost / Revaluation | | | | Accumulated Depreciation / Impairment | | | | Carrying |
|--|----------------------|-------------------|--------------------|----------------------|---------------------------------------|-------------------|--------------------|----------------------|--------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| | R | R | R | R | R | R | R | R | R |
| Land and Buildings | | | | | | | | | |
| Land | 16,162,521 | - | - | 16,162,521 | - | - | - | - | 16,162,521 |
| Building | 262,927,535 | - | - | 262,927,535 | 139,078,599 | 11,061,874 | - | 150,140,473 | 112,787,063 |
| | 279,090,056 | - | - | 279,090,056 | 139,078,599 | 11,061,874 | - | 150,140,473 | 128,949,584 |
| Infrastructure | | | | | | | | | |
| Electricity: | | | | | | | | | |
| Electricity Network | 221,609,722 | - | - | 221,609,722 | 140,118,638 | 5,622,053 | - | 145,740,691 | 75,869,031 |
| Solid Waste | | | | | | | | | |
| Landfill Site | 2,683,331 | - | - | 2,683,331 | 268,333 | 89,444 | - | 357,777 | 2,325,553 |
| Sanitation: | | | | | | | | | |
| Sewer | 103,032,039 | - | - | 103,032,039 | 61,837,020 | 3,009,636 | - | 64,846,656 | 38,185,383 |
| Storm Water | | | | | | | | | |
| Storm Water Network | 408,547,621 | - | - | 408,547,621 | 239,405,668 | 8,153,330 | - | 247,558,997 | 160,988,623 |
| Roads: | | | | | | | | | |
| Roads Network | 814,954,080 | - | - | 814,954,080 | 492,611,557 | 17,111,081 | - | 509,722,638 | 305,231,442 |
| Water: | | | | | | | | | |
| Water Network | 328,868,056 | 13,832,615 | - | 342,700,670 | 187,371,318 | 14,723,455 | - | 202,094,772 | 140,605,898 |
| | 1,879,694,848 | 13,832,615 | - | 1,893,527,462 | 1,121,612,534 | 48,708,999 | - | 1,170,321,532 | 723,205,930 |
| Other Assets | | | | | | | | | |
| Computer Equipment | | | | | | | | | |
| COMPUTER HARDWARE | 2,654,194 | 122,214 | (332,986) | 2,443,422 | 1,727,744 | 281,247 | (260,876) | 1,748,114 | 695,308 |
| Transport Assets | | | | | | | | | |
| BICYCLES | 2,400 | - | - | 2,400 | 1,086 | 1,314 | - | 2,400 | - |
| MOTOR VEHICLES | 4,128,419 | - | - | 4,128,419 | 1,621,773 | 344,259 | - | 1,966,032 | 2,162,387 |
| TRAILERS AND ACCESSORIES | 248,511 | - | - | 248,511 | 109,776 | 13,821 | - | 123,597 | 124,914 |
| TRUCKS | 5,226,420 | - | - | 5,226,420 | 1,674,180 | 272,185 | - | 1,946,365 | 3,280,055 |
| Furniture and Office Equipment: | | | | | | | | | |
| ADVERTISING BOARDS | 3,342,202 | 4,956 | (1,797) | 3,345,361 | 896,578 | 334,349 | (1,710) | 1,229,216 | 2,116,144 |
| AIR CONDITIONERS INDIVIDUAL FIXED AND MOVABLE | 428,888 | 14,750 | (29,756) | 413,883 | 253,355 | 64,437 | (10,671) | 307,122 | 106,761 |
| DOMESTIC AND HOSTEL FURNITURE | 64,841 | - | (4,415) | 60,426 | 34,843 | 5,872 | (3,411) | 37,304 | 23,122 |
| FIXTURES & FITTINGS | 511,919 | - | (33,110) | 478,809 | 350,943 | 25,572 | (16,509) | 360,007 | 118,802 |
| OFFICE EQUIPMENT INCLUDING FAX MACHINES | 837,493 | 29,658 | (34,960) | 832,191 | 565,968 | 60,940 | (26,689) | 600,219 | 231,972 |
| OFFICE FURNITURE | 3,447,710 | 50,066 | (421,481) | 3,076,295 | 2,314,827 | 200,893 | (240,325) | 2,275,395 | 800,899 |
| Machinery and Equipment: | | | | | | | | | |
| AUDIOVISUAL EQUIPMENT | 271,889 | 1,430 | (76,402) | 196,917 | 166,152 | 24,793 | (56,253) | 134,693 | 62,224 |
| DOMESTIC EQUIPMENT (NON KITCHEN APPLIANCES) | 134,457 | 38,403 | (24,480) | 148,379 | 102,139 | 14,068 | (19,715) | 96,492 | 51,887 |
| ELECTRIC WIRE AND POWER DISTRIBUTION EQUIPMENT | 296,510 | - | - | 296,510 | 110,609 | 39,922 | - | 150,530 | 145,980 |
| FIRE ARMS | 92,848 | - | (61,232) | 31,616 | 36,625 | (3,916) | (11,368) | 21,341 | 10,275 |
| FIRE FIGHTING EQUIPMENT | 71,790 | - | (20,385) | 51,405 | 60,494 | 793 | (16,701) | 44,586 | 6,819 |
| GARDENING EQUIPMENT | 163,780 | 8,496 | (13,879) | 158,397 | 116,447 | 19,174 | (10,712) | 124,909 | 33,487 |
| KITCHEN APPLIANCES | 151,439 | 526 | (5,413) | 146,553 | 106,124 | 11,199 | (4,797) | 112,526 | 34,026 |
| LABORATORY EQUIPMENT AGRICULTURAL | 9,300 | - | - | 9,300 | 6,108 | 587 | - | 6,696 | 2,604 |
| LABORATORY EQUIPMENT MEDICAL TESTING | 5,993 | - | - | 5,993 | 5,049 | 218 | - | 5,267 | 726 |
| MACHINES FOR TEXTILE PRODUCTION | 1,393 | - | - | 1,393 | 752 | 125 | - | 878 | 515 |
| MEDICAL AND ALLIED EQUIPMENT | 33,166 | - | (5,800) | 27,366 | 19,940 | 2,640 | (4,350) | 18,230 | 9,136 |
| METERS PREPAID | 27,855 | - | (5,264) | 22,591 | 21,616 | 1,606 | (4,575) | 18,646 | 3,945 |
| MUSIC INSTRUMENTS | 130,000 | - | - | 130,000 | 70,200 | 11,700 | - | 81,900 | 48,100 |
| PUMPS, PLUMBING, PURIFICATION, SANITATION | 620,898 | - | (577,730) | 43,168 | 435,020 | 36,110 | (436,770) | 34,360 | 8,808 |
| RADIO EQUIPMENT | 61,925 | 29,998 | (2,279) | 89,644 | 37,522 | 10,574 | (1,688) | 46,409 | 43,236 |
| ROAD CONSTRUCTION AND MAINTENANCE EQUIPMENT | 5,098,617 | - | (46,800) | 5,051,817 | 1,761,462 | 450,635 | (20,496) | 2,191,602 | 2,860,215 |
| SECURITY & ACCESS CONTROL UNITS | 129,179 | - | - | 129,179 | 43,186 | 11,349 | - | 54,535 | 74,644 |
| TELECOMMUNICATION EQUIPMENT | 534,894 | - | (6,000) | 528,894 | 458,718 | 8,836 | (986) | 466,568 | 62,326 |
| WORKSHOP EQUIPMENT AND LOOSE TOOLS FIXED | 79,907 | 2,895 | - | 82,802 | 53,235 | 5,806 | - | 59,041 | 23,761 |
| WORKSHOP EQUIPMENT AND LOOSE TOOLS MOVABLE | 1,355,243 | 36,432 | (490,497) | 901,178 | 890,153 | 70,446 | (301,839) | 658,760 | 242,418 |
| | 30,164,081 | 339,824 | (2,194,666) | 28,309,239 | 14,052,625 | 2,321,555 | (1,450,439) | 14,923,741 | 13,385,498 |
| Total | 2,188,948,984 | 14,172,439 | (2,194,666) | 2,202,926,757 | 1,274,743,758 | 62,092,428 | (1,450,439) | 1,335,385,746 | 865,541,012 |

ANALYSIS OF INVESTMENT PROPERTY AS AT 30 JUNE 2015

| Description | Cost / Revaluation | | | | Accumulated Depreciation / Impairment | | | | Carrying |
|----------------------------|--------------------|-----------|-----------|------------------|---------------------------------------|-----------|-----------|-----------------|------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| | R | R | R | R | R | R | R | R | R |
| Investment Property | | | | | | | | | |
| Land | 5,004,000 | - | - | 5,004,000 | - | - | - | - | 5,004,000 |
| | 5,004,000 | - | - | 5,004,000 | - | - | - | - | 5,004,000 |

ANALYSIS OF HERITAGE AS AT 30 JUNE 2015

| Description | Cost / Revaluation | | | | Accumulated Depreciation / Impairment | | | | Carrying |
|----------------------------------|--------------------|-----------|-----------|------------------|---------------------------------------|-----------|-----------|-----------------|------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| | R | R | R | R | R | R | R | R | R |
| Heritage Assets | | | | | | | | | |
| MUNICIPAL JEWELLERY | 849,200 | - | - | 849,200 | - | - | - | - | 849,200 |
| OTHER ANTIQUES AND COLLECTIONS | 475,500 | - | - | 475,500 | - | - | - | - | 475,500 |
| CULTURALLY SIGNIFICANT BUILDINGS | 5,634,573 | - | - | 5,634,573 | - | - | - | - | 5,634,573 |
| | 6,959,273 | - | - | 6,959,273 | - | - | - | - | 6,959,273 |

ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2015

| Description | Cost / Revaluation | | | | Accumulated Depreciation / Impairment | | | | Carrying |
|--------------------------|--------------------|---------------|-----------|------------------|---------------------------------------|----------------|-----------|------------------|----------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| | R | R | R | R | R | R | R | R | R |
| Intangible Assets | | | | | | | | | |
| Computer Software | 1,977,579 | 21,879 | - | 1,999,458 | 1,593,787 | 170,277 | - | 1,764,065 | 235,393 |
| | 1,977,579 | 21,879 | - | 1,999,458 | 1,593,787 | 170,277 | - | 1,764,065 | 235,393 |

| | | | | | | | | | |
|-----------------------------|----------------------|-------------------|--------------------|----------------------|----------------------|-------------------|--------------------|----------------------|--------------------|
| Total Asset Register | 2,190,926,563 | 14,194,318 | (2,194,666) | 2,202,926,215 | 1,276,337,545 | 62,262,705 | (1,450,439) | 1,337,149,810 | 865,776,405 |
|-----------------------------|----------------------|-------------------|--------------------|----------------------|----------------------|-------------------|--------------------|----------------------|--------------------|

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX C
SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2015

| Description | Cost / Revaluation | | | | Accumulated Depreciation / Impairment | | | | Carrying Value |
|-------------------------------|----------------------|-------------------|--------------------|----------------------|---------------------------------------|-------------------|--------------------|----------------------|--------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | |
| | R | R | R | R | R | R | R | R | R |
| Executive and Council | 1,634,914 | 9,299 | (116,322) | 1,527,891 | 677,603 | 227,506 | (44,009) | 861,099 | 666,792 |
| Finance and Administration | 5,187,929 | 173,655 | (308,331) | 5,053,253 | 3,279,664 | 543,802 | (226,414) | 3,597,052 | 1,456,201 |
| Planning and Development | 262,927,535 | - | - | 262,927,535 | 139,078,599 | 11,061,874 | - | 150,140,473 | 112,787,063 |
| Community and Social Services | 5,298,044 | 133,979 | (398,255) | 5,033,767 | 3,470,657 | 334,395 | (231,786) | 3,573,266 | 1,460,501 |
| Housing | 16,634,342 | 44,770 | (1,255,035) | 15,424,077 | 6,823,558 | 1,117,992 | (857,060) | 7,084,489 | 8,339,588 |
| Roads and Transport | 395,228,749 | - | (98,161) | 395,130,588 | 240,399,894 | 8,100,590 | (77,212) | 248,423,272 | 146,707,316 |
| Electricity | 1,052,967,616 | - | - | 1,052,967,616 | 633,040,914 | 23,043,854 | - | 656,084,768 | 396,882,848 |
| Waste Management | 105,715,370 | - | - | 105,715,370 | 62,105,353 | 3,099,080 | - | 65,204,434 | 40,510,936 |
| Water | 329,054,681 | 13,832,615 | - | 342,887,296 | 187,375,983 | 14,728,120 | - | 202,104,104 | 140,783,192 |
| Total | 2,174,764,042 | 14,194,318 | (2,194,666) | 2,186,763,694 | 1,276,337,545 | 62,262,705 | (1,450,439) | 1,337,149,810 | 849,613,884 |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

| 2014 Actual Income | 2014 Actual Expenditure | 2014 Surplus/ (Deficit) | Description | 2015 Actual Income | 2015 Actual Expenditure | 2015 Surplus/ (Deficit) |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------|-------------------------------|-------------------------------|
| R | R | R | | R | R | R |
| 5,435,955 | (15,290,139) | (9,854,184) | Executive and Council | 4,792,454 | (15,419,900) | (10,627,446) |
| 38,130,874 | (29,394,777) | 8,736,097 | Finance and Administration | 37,474,058 | (28,172,609) | 9,301,448 |
| 1,234,627 | (18,449,763) | (17,215,136) | Planning and Development | 897,011 | (19,447,097) | (18,550,086) |
| - | (74,729) | (74,729) | Health | - | (7,121) | (7,121) |
| 1,434,627 | (20,439,483) | (19,004,856) | Community and Social Services | 1,515,737 | (20,248,399) | (18,732,662) |
| 1,030,963 | (4,630,122) | (3,599,159) | Housing | 677,719 | (4,452,101) | (3,774,382) |
| 21,037,314 | (6,770,517) | 14,266,797 | Public Safety | 24,646,248 | (8,026,490) | 16,619,758 |
| 145,443 | (3,341,147) | (3,195,704) | Sport and Recreation | 112,445 | (4,141,591) | (4,029,146) |
| - | - | - | Environmental Protection | - | - | - |
| 29,854,516 | (28,977,635) | 876,882 | Waste Management | 43,653,254 | (30,080,081) | 13,573,173 |
| 9,190,564 | (15,637,285) | (6,446,721) | Roads and Transport | 10,147,287 | (18,971,744) | (8,824,457) |
| 25,603,450 | (32,709,812) | (7,106,363) | Water | 27,325,462 | (30,122,760) | (2,797,298) |
| 60,589,837 | (82,559,386) | (21,969,548) | Electricity | 67,029,700 | (81,029,535) | (13,999,835) |
| - | (1,621,366) | (1,621,366) | Other | | (1,622,637) | (1,622,637) |
| 193,688,171 | (259,896,161) | (66,207,989) | Sub-Total | 218,271,374 | (261,742,065) | (43,470,691) |
| | | | Revenue Foregone | | | |
| 193,688,171 | (259,896,161) | (66,207,989) | Total | 218,271,374 | (261,742,065) | (43,470,691) |
| | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX E(1)

RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY STANDARD CLASSIFICATION FOR THE YEAR ENDED 30 JUNE 2015

| Description | 2015 | | | | | | | | | | | 2014 | | | |
|---|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|--------------------|---------------------|-----------------------------|----------------------|---|--|---|---|-------------------------------|--------------------------------|
| | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget | Reported Unauthorised Expenditure | Expenditure authorised i.t.o. Sect 32 | Balance to be Recovered | Restated Audited Outcome |
| | R | R | R | R | R | R | R | R | R | R | R | R | R | R | R |
| REVENUE - STANDARD | | | | | | | | | | | | | | | |
| Governance and Administration: | | | | | | | | | | | | | | | |
| Executive and Council | 3,238,000 | - | 3,238,000 | - | - | 6,476,000 | 4,792,454 | - | (1,683,546) | (26.00)% | (51.99)% | - | - | - | 5,435,955 |
| Finance and Administration | 39,310,000 | - | 39,310,000 | - | - | 78,620,000 | 37,474,058 | - | (41,145,942) | (52.34)% | (104.67)% | - | - | - | 38,130,874 |
| Community and Public Safety: | | | | | | | | | | | | | | | |
| Community and Social Services | 1,410,000 | - | 1,410,000 | - | - | 2,820,000 | 1,515,737 | - | (1,304,263) | (46.25)% | (92.50)% | - | - | - | 1,434,627 |
| Sport and Recreation | 102,000 | - | 102,000 | - | - | 204,000 | 112,445 | - | (91,555) | (44.88)% | (89.76)% | - | - | - | 145,443 |
| Public Safety | 7,196,000 | - | 7,196,000 | - | - | 14,392,000 | 24,646,248 | - | 10,254,248 | 71.25% | 142.50% | - | - | - | 21,037,314 |
| Housing | 36,000 | - | 36,000 | - | - | 72,000 | 677,719 | - | 605,719 | 841.28% | 1682.55% | - | - | - | 1,030,963 |
| Economic and Environmental Services: | | | | | | | | | | | | | | | |
| Planning and Development | 1,800,000 | - | 1,800,000 | - | - | 3,600,000 | 897,011 | - | (2,702,989) | (75.08)% | (150.17)% | - | - | - | 1,234,627 |
| Road Transport | 12,894,000 | - | 12,894,000 | - | - | 25,788,000 | 10,147,287 | - | (15,640,713) | (60.65)% | (121.30)% | - | - | - | 9,190,564 |
| Trading Services: | | | | | | | | | | | | | | | |
| Electricity | 75,900,000 | (4,550,000) | 71,350,000 | - | - | 142,700,000 | 67,029,700 | - | (75,670,300) | (53.03)% | (99.70)% | - | - | - | 60,589,837 |
| Water | 45,961,000 | (17,340,000) | 28,621,000 | - | - | 57,242,000 | 27,325,462 | - | (29,916,538) | (52.26)% | (65.09)% | - | - | - | 25,603,450 |
| Waste Management | 41,594,000 | (4,950,000) | 36,644,000 | - | - | 73,288,000 | 43,653,254 | - | (29,634,746) | (40.44)% | (71.25)% | - | - | - | 29,854,516 |
| Other: | | | | | | | | | | | | | | | |
| Other | - | - | - | - | - | - | - | - | - | 0.00% | 0.00% | - | - | - | - |
| Total Revenue - Standard | 229,441,000 | (26,840,000) | 202,601,000 | - | - | 405,202,000 | 218,271,374 | - | (186,930,626) | (85.64)% | (81.47)% | - | - | - | 193,688,171 |
| EXPENDITURE - STANDARD | | | | | | | | | | | | | | | |
| Governance and Administration: | | | | | | | | | | | | | | | |
| Executive and Council | 12,679,000 | 218,000 | 12,897,000 | - | - | 25,794,000 | 15,419,900 | 2,522,900 | (10,374,100) | (40.22)% | (81.82)% | 3,186,638 | - | 3,186,638 | 15,290,139 |
| Budget and Treasury Office | 30,824,000 | (211,000) | 30,613,000 | - | - | 61,226,000 | 28,172,609 | - | (33,053,391) | (53.99)% | (107.23)% | 2,094,284 | - | 2,094,284 | 29,394,777 |
| Community and Public Safety: | | | | | | | | | | | | | | | |
| Community and Social Services | 10,559,000 | (313,000) | 10,246,000 | - | - | 20,492,000 | 20,248,399 | 10,002,399 | (243,601) | (1.19)% | (2.31)% | 10,529,851 | - | 10,529,851 | 20,439,483 |
| Sport and Recreation | 3,948,000 | 436,000 | 4,384,000 | - | - | 8,768,000 | 4,141,591 | - | (4,626,409) | (52.76)% | (117.18)% | - | - | - | 3,341,147 |
| Public Safety | 9,018,000 | 40,000 | 9,058,000 | - | - | 18,116,000 | 8,026,490 | - | (10,089,510) | (55.69)% | (111.88)% | - | - | - | 6,770,517 |
| Housing | 2,069,000 | 40,000 | 2,109,000 | - | - | 4,218,000 | 4,452,101 | 2,343,101 | 234,101 | 5.55% | 11.31% | 2,534,451 | - | 2,534,451 | 4,630,122 |
| Health | 169,000 | - | 169,000 | - | - | 338,000 | 7,121 | - | (330,879) | (97.89)% | (195.79)% | - | - | - | 74,729 |
| Economic and Environmental Services: | | | | | | | | | | | | | | | |
| Planning and Development | 9,647,000 | 105,000 | 9,752,000 | - | - | 19,504,000 | 19,447,097 | 9,695,097 | (56,903) | (0.29)% | (0.59)% | 8,645,803 | - | 8,645,803 | 18,449,763 |
| Road Transport | 15,034,000 | - | 15,034,000 | - | - | 30,068,000 | 18,971,744 | 3,937,744 | (11,096,256) | (36.90)% | (73.81)% | 6,623,486 | - | 6,623,486 | 15,637,285 |
| Trading Services: | | | | | | | | | | | | | | | |
| Electricity | 64,771,000 | (2,815,000) | 61,956,000 | - | - | 123,912,000 | 81,029,535 | 19,073,535 | (42,882,465) | (34.61)% | (66.21)% | 27,463,757 | - | 27,463,757 | 82,559,386 |
| Water | 14,979,000 | 2,112,000 | 17,091,000 | - | - | 34,182,000 | 30,122,760 | 13,031,760 | (4,059,240) | (11.88)% | (27.10)% | 23,832,823 | - | 23,832,823 | 32,709,812 |
| Waste Management | 27,061,000 | 725,000 | 27,786,000 | - | - | 55,572,000 | 30,080,081 | 3,798,312 | (25,491,919) | (45.87)% | (94.20)% | 10,824,142 | - | 10,824,142 | 28,977,635 |
| Other: | | | | | | | | | | | | | | | |
| Other | 907,000 | - | 907,000 | - | - | 1,814,000 | 1,622,637 | 715,637 | (191,363) | (10.55)% | (21.10)% | - | - | - | 1,621,366 |
| Total Expenditure - Standard | 201,665,000 | 337,000 | 202,002,000 | - | - | 404,004,000 | 261,742,065 | 65,120,484 | (142,261,935) | (54.35)% | (70.54)% | 95,735,235 | - | 95,735,235 | 259,896,161 |
| | | | | | | | | | | | | | | | |
| Surplus/(Deficit) for the year | 27,776,000 | (27,177,000) | 599,000 | - | - | 1,198,000 | (43,470,691) | (65,120,484) | (44,668,691) | 102.76% | (160.82)% | (95,735,235) | - | (95,735,235) | (66,207,989) |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX E(2)

RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY MUNICIPAL VOTE FOR THE YEAR ENDED 30 JUNE 2015

| RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY MUNICIPAL VOTE FOR THE YEAR ENDED 30 JUNE 2015 | | | | | | | | | | | | | | | |
|--|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|-----------------|-------------------|-----------------------------|--------------|---|--|---|---|-------------------------------|--------------------------------|
| Description | 2015 | | | | | | 2014 | | | | | | | | |
| | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget | Reported Unauthorised Expenditure | Expenditure authorised i.t.o. Sect 32 | Balance to be Recovered | Restated Audited Outcome |
| | R | R | R | R | R | R | R | R | R | R | R | R | R | R | R |
| REVENUE BY VOTE | | | | | | | | | | | | | | | |
| Vote 1 - Executive and Council | 3,238,000 | - | 3,238,000 | - | - | 3,238,000 | 4,792,454 | - | 1,554,454 | 48.01% | 48.01% | - | - | - | 5,435,955 |
| Vote 2 - Finance and Administration | 39,310,000 | - | 39,310,000 | - | - | 39,310,000 | 37,474,058 | - | (1,835,942) | (4.67)% | (4.67)% | - | - | - | 38,130,874 |
| Vote 3 - Planning and Development | 1,800,000 | - | 1,800,000 | - | - | 1,800,000 | 897,011 | - | (902,989) | (50.17)% | (50.17)% | - | - | - | 1,234,627 |
| Vote 4 - Health | - | - | - | - | - | - | - | - | - | 0.00% | 0.00% | - | - | - | - |
| Vote 5 - Community and Social Services | 1,410,000 | - | 1,410,000 | - | - | 1,410,000 | 1,515,737 | - | 105,737 | 7.50% | 7.50% | - | - | - | 1,434,627 |
| Vote 6 - Public Safety | 7,196,000 | - | 7,196,000 | - | - | 7,196,000 | 24,646,248 | - | 17,450,248 | 242.50% | 242.50% | - | - | - | 21,037,314 |
| Vote 7 - Sports and Recreation | 102,000 | - | 102,000 | - | - | 102,000 | 112,445 | - | 10,445 | 10.24% | 10.24% | - | - | - | 145,443 |
| Vote 8 - Road Transport | 12,894,000 | - | 12,894,000 | - | - | 12,894,000 | 10,147,287 | - | (2,746,713) | (21.30)% | (21.30)% | - | - | - | 9,190,564 |
| Vote 9 - Other | - | - | - | - | - | - | - | - | - | 0.00% | 0.00% | - | - | - | - |
| Vote 10 - Housing Services | 36,000 | - | 36,000 | - | - | 36,000 | 677,719 | - | 641,719 | 1782.55% | 1782.55% | - | - | - | 1,030,963 |
| Vote 11 - Waste Management | 15,612,000 | (1,770,000) | 13,842,000 | - | - | 13,842,000 | 43,653,254 | - | 29,811,254 | 215.37% | 190.95% | - | - | - | 29,854,516 |
| Vote 12 - Waste Water Management | 25,982,000 | (3,180,000) | 22,802,000 | - | - | 22,802,000 | - | - | (22,802,000) | (100.00)% | (87.76)% | - | - | - | - |
| Vote 13 - Electricity | 75,900,000 | (4,550,000) | 71,350,000 | - | - | 71,350,000 | 67,029,700 | - | (4,320,300) | (6.06)% | (5.69)% | - | - | - | 60,589,837 |
| Vote 14 - Water | 45,961,000 | (17,340,000) | 28,621,000 | - | - | 28,621,000 | 27,325,462 | - | (1,295,538) | (4.53)% | (2.82)% | - | - | - | 25,603,450 |
| Total Revenue by Vote | 229,441,000 | (26,840,000) | 202,601,000 | - | - | 202,601,000 | 218,271,374 | - | 15,670,374 | 7.18% | 6.83% | - | - | - | 193,688,171 |
| EXPENDITURE BY VOTE | | | | | | | | | | | | | | | |
| Vote 1 - Executive and Council | 12,679,000 | 218,000 | 12,897,000 | - | - | 12,897,000 | 15,419,900 | 2,522,900 | 2,522,900 | 19.56% | 19.90% | 3,186,638 | - | - | 15,290,139 |
| Vote 2 - Finance and Administration | 30,824,000 | (211,000) | 30,613,000 | - | - | 30,613,000 | 28,172,609 | - | (2,440,391) | (7.97)% | (7.92)% | 2,094,284 | - | - | 29,394,777 |
| Vote 3 - Planning and Development | 9,647,000 | 105,000 | 9,752,000 | - | - | 9,752,000 | 19,447,097 | 9,695,097 | 9,695,097 | 99.42% | 100.50% | 8,645,803 | - | - | 18,449,763 |
| Vote 4 - Health | 169,000 | - | 169,000 | - | - | 169,000 | 7,121 | - | (161,879) | (95.79)% | (95.79)% | - | - | - | 74,729 |
| Vote 5 - Community and Social Services | 10,559,000 | (313,000) | 10,246,000 | - | - | 10,246,000 | 20,248,399 | 10,002,399 | 10,002,399 | 97.62% | 94.73% | 10,529,851 | - | - | 20,439,483 |
| Vote 6 - Public Safety | 9,018,000 | 40,000 | 9,058,000 | - | - | 9,058,000 | 8,026,490 | - | (1,031,510) | (11.39)% | (11.44)% | - | - | - | 6,770,517 |
| Vote 7 - Sports and Recreation | 3,948,000 | 436,000 | 4,384,000 | - | - | 4,384,000 | 4,141,591 | - | (242,409) | (5.53)% | (6.14)% | - | - | - | 3,341,147 |
| Vote 8 - Road Transport | 15,034,000 | - | 15,034,000 | - | - | 15,034,000 | 18,971,744 | 3,937,744 | 3,937,744 | 26.19% | 26.19% | 6,623,486 | - | - | 15,637,285 |
| Vote 9 - Other | 907,000 | - | 907,000 | - | - | 907,000 | 1,622,637 | 715,637 | 715,637 | 78.90% | 78.90% | - | - | - | 1,621,366 |
| Vote 10 - Housing Services | 2,069,000 | 40,000 | 2,109,000 | - | - | 2,109,000 | 4,452,101 | 2,343,101 | 2,343,101 | 111.10% | 113.25% | 2,534,451 | - | - | 4,630,122 |
| Vote 11 - Waste Management | 15,163,000 | - | 15,163,000 | - | - | 15,163,000 | 30,080,081 | - | 14,917,081 | 98.38% | 98.38% | 10,824,142 | - | - | 28,977,635 |
| Vote 12 - Waste Water Management | 12,623,000 | - | 12,623,000 | - | - | 12,623,000 | - | - | (12,623,000) | (100.00)% | (100.00)% | - | - | - | - |
| Vote 13 - Electricity | 64,771,000 | (2,815,000) | 61,956,000 | - | - | 61,956,000 | 81,029,535 | 19,073,535 | 19,073,535 | 30.79% | 29.45% | 27,463,757 | - | - | 82,559,386 |
| Vote 14 - Water | 14,979,000 | 2,112,000 | 17,091,000 | - | - | 17,091,000 | 30,122,760 | 13,031,760 | 13,031,760 | 76.25% | 87.00% | 23,832,823 | - | - | 32,709,812 |
| Total Expenditure by Vote | 202,390,000 | (388,000) | 202,002,000 | - | - | 202,002,000 | 261,742,065 | 61,322,172 | 59,740,065 | 22.82% | 29.52% | 95,735,235 | - | - | 259,896,161 |
| Surplus/(Deficit) for the year | 27,051,000 | (26,452,000) | 599,000 | - | - | 599,000 | (43,470,691) | (61,322,172) | (44,069,691) | 101.38% | (162.91)% | (95,735,235) | - | - | (66,207,989) |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX E(3)

RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

| Description | 2015 | | | | | | | | | | | 2014 | | | |
|---|-----------------------------|--------------|--------------------------------|-------------------------|----------|--------------|--------------|--------------|--------------|---|--|---|---|-------------------------------|--------------------------------|
| | Original Total Budget | Budget | Final Adjustments Budget | Shifting of Funds | Virement | Final | Actual | Unauthorised | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget | Reported Unauthorised Expenditure | Expenditure authorised i.t.o. Sect 32 | Balance to be Recovered | Restated Audited Outcome |
| | R | Adjustments | R | R | R | Budget | Outcome | Expenditure | R | R | R | R | R | R | R |
| Revenue by Source | | | | | | | | | | | | | | | |
| Property Rates | 23,785,000 | - | 23,785,000 | - | - | 23,785,000 | 21,905,068 | - | (1,879,932) | (7.90)% | (7.90)% | - | - | - | 21,035,469 |
| Property Rates - Penalties & Collection Charges | - | - | - | - | - | - | 170,342 | - | 170,342 | 100.00% | 100.00% | - | - | - | 149,924 |
| Service Charges - Electricity | 53,614,000 | (3,500,000) | 50,114,000 | - | - | 50,114,000 | 59,934,848 | - | 9,820,848 | 19.60% | 18.32% | - | - | - | 56,487,600 |
| Service Charges - Water | 24,575,000 | (800,000) | 23,775,000 | - | - | 23,775,000 | 20,888,046 | - | (2,886,954) | (12.14)% | (11.75)% | - | - | - | 18,745,519 |
| Service Charges - Sanitation | 13,906,000 | - | 13,906,000 | - | - | 13,906,000 | 10,668,235 | - | (3,237,765) | (23.28)% | (23.28)% | - | - | - | 10,301,577 |
| Service Charges - Refuse | 8,347,000 | - | 8,347,000 | - | - | 8,347,000 | 5,822,484 | - | (2,524,516) | (30.24)% | (30.24)% | - | - | - | 5,705,360 |
| Service Charges - Other | 69,000 | 153,000 | 222,000 | - | - | 222,000 | 427,195 | - | 205,195 | 92.43% | 297.38% | - | - | - | 414,759 |
| Rental of Facilities and Equipment | 755,000 | (152,000) | 603,000 | - | - | 603,000 | 1,188,905 | - | 585,905 | 97.16% | 77.60% | - | - | - | 747,144 |
| Interest Earned - External Investments | 940,000 | - | 940,000 | - | - | 940,000 | 950,399 | - | 10,399 | 1.11% | 1.11% | - | - | - | 1,030,475 |
| Interest Earned - Outstanding Debtors | 819,000 | - | 819,000 | - | - | 819,000 | 645,761 | - | (173,239) | (21.15)% | (21.15)% | - | - | - | 625,352 |
| Fines | 6,624,000 | - | 6,624,000 | - | - | 6,624,000 | 24,477,475 | - | 17,853,475 | 269.53% | 269.53% | - | - | - | 14,898,701 |
| Licences and Permits | 1,874,000 | - | 1,874,000 | - | - | 1,874,000 | 1,256,930 | - | (617,070) | (32.93)% | (32.93)% | - | - | - | 1,304,582 |
| Transfers Recognised - Operational | 39,633,000 | - | 39,633,000 | - | - | 39,633,000 | 39,770,004 | - | 137,004 | 0.35% | 0.35% | - | - | - | 39,023,543 |
| Other Revenue | 25,131,000 | (6,000,000) | 19,131,000 | - | - | 19,131,000 | 7,251,038 | - | (11,879,962) | (62.10)% | (47.27)% | - | - | - | 3,216,902 |
| Gains on Other Operations | - | - | - | - | - | - | 4,551 | - | 4,551 | 100.00% | 100.00% | - | - | - | 7,108 |
| Gains on Disposal of PPE | 120,000 | - | 120,000 | - | - | 120,000 | - | - | (120,000) | (100.00)% | (100.00)% | - | - | - | 164,092 |
| Profit on Sale of Land | - | - | - | - | - | - | 978,624 | - | 978,624 | 0.00% | 0.00% | - | - | - | - |
| Total Revenue | 200,192,000 | (10,299,000) | 189,893,000 | - | - | 189,893,000 | 196,339,905 | - | 6,446,905 | 3.28% | 3.22% | - | - | - | 173,858,108 |
| Expenditure | | | | | | | | | | | | | | | |
| Employee Related Costs | 62,980,000 | (15,000) | 62,965,000 | - | - | 62,965,000 | 66,864,269 | - | 3,899,269 | 6.19% | 6.19% | - | - | - | 59,893,633 |
| Remuneration of Councillors | 4,308,000 | (47,000) | 4,261,000 | - | - | 4,261,000 | 4,126,459 | - | (134,541) | (3.16)% | (3.12)% | - | - | - | 4,157,184 |
| Collection Costs | - | - | - | - | - | - | 283,077 | - | 283,077 | 100.00% | 100.00% | - | - | - | - |
| Depreciation and Amortisation | 8,681,000 | - | 8,681,000 | - | - | 8,681,000 | 62,177,887 | - | 53,496,887 | 616.25% | 616.25% | - | - | - | 68,118,102 |
| Impairment Losses | 10,827,000 | (324,000) | 10,503,000 | - | - | 10,503,000 | 30,897,130 | - | 20,394,130 | 194.17% | 188.36% | - | - | - | 43,186,035 |
| Repairs and Maintenance | 8,350,000 | - | 8,350,000 | - | - | 8,350,000 | 11,214,814 | - | 2,864,814 | 34.31% | 34.31% | - | - | - | 11,610,873 |
| Finance Costs | 1,700,000 | 830,000 | 2,530,000 | - | - | 2,530,000 | 1,336,550 | - | (1,193,450) | (47.17)% | (70.20)% | - | - | - | 1,607,928 |
| Bulk Purchases | 47,529,000 | - | 47,529,000 | - | - | 47,529,000 | 47,048,655 | - | (480,345) | (1.01)% | (1.01)% | - | - | - | 43,535,580 |
| Contracted Services | 8,830,000 | (592,000) | 8,238,000 | - | - | 8,238,000 | 7,767,413 | - | (470,587) | (5.71)% | (5.33)% | - | - | - | 7,227,685 |
| Grants and Subsidies Paid | 13,669,000 | - | 13,669,000 | - | - | 13,669,000 | 225,467 | - | (13,443,534) | (98.35)% | (98.35)% | - | - | - | 750,004 |
| General Expenses | 34,793,000 | 485,000 | 35,278,000 | - | - | 35,278,000 | 21,597,900 | - | (13,680,100) | (38.78)% | (39.32)% | - | - | - | 19,672,718 |
| Loss on Disposal of Property, Plant and Equipment | - | - | - | - | - | - | 744,226 | 744,226 | 744,226 | 0.00% | 0.00% | - | - | - | - |
| Inventory Written-off | - | - | - | - | - | - | - | - | - | 0.00% | 0.00% | - | - | - | 66,661 |
| Loss on Sale of Land | - | - | - | - | - | - | - | - | - | 0.00% | 0.00% | - | - | - | 69,756 |
| Total Expenditure | 201,667,000 | 337,000 | 202,004,000 | - | - | 202,004,000 | 254,283,847 | 744,226 | 52,279,847 | 20.56% | 25.92% | - | - | - | 259,896,161 |
| Surplus/(Deficit) | (1,475,000) | (10,636,000) | (12,111,000) | - | - | (12,111,000) | (57,943,942) | (744,226) | (45,832,942) | 378.44% | 3107.32% | - | - | - | (86,038,052) |
| Transfers Recognised - Capital | 29,248,000 | (16,540,000) | 12,708,000 | - | - | 12,708,000 | 14,473,251 | - | 1,765,251 | 13.89% | 6.04% | - | - | - | 19,830,063 |
| Surplus/(Deficit) for the Year | 27,773,000 | (27,176,000) | 597,000 | - | - | 597,000 | (43,470,691) | (744,226) | (44,067,691) | 101.37% | (158.67)% | - | - | - | (66,207,989) |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX E(4)

RECONCILIATION OF BUDGETED CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2015

| Description | 2015 | | | | | | | | | | | 2014 | | | |
|--|-----------------------------|-----------------------|--------------------------------|-------------------------|----------|-------------------|-------------------|-----------------------------|---------------------|---|--|---|---|-------------------------------|--------------------------------|
| | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Shifting of Funds | Virement | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget | Reported Unauthorised Expenditure | Expenditure authorised i.t.o. Sect 32 | Balance to be Recovered | Restated Audited Outcome |
| | R | R | R | R | R | R | R | R | R | R | R | R | R | R | R |
| CAPITAL EXPENDITURE - VOTE | | | | | | | | | | | | | | | |
| Multi-year Expenditure | | | | | | | | | | | | | | | |
| Vote 1 - Executive and Council | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 2 - Finance and Administration | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 3 - Planning and Development | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 4 - Health | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 5 - Community and Social Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 6 - Public Safety | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 7 - Sports and Recreation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 8 - Road Transport | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 9 - Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 10 - Housing Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 11 - Waste Management | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 12 - Waste Water Management | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 13 - Electricity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 14 - Water | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Capital Expenditure - Multi-year | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Single-year Expenditure | | | | | | | | | | | | | | | |
| Vote 1 - Executive and Council | 153,000 | - | 153,000 | - | - | 153,000 | 9,299 | - | (143,701) | (93.92)% | (93.92)% | - | - | - | 585,487 |
| Vote 2 - Finance and Administration | 1,687,000 | - | 1,687,000 | - | - | 1,687,000 | 173,655 | - | (1,513,345) | (89.71)% | (89.71)% | - | - | - | 199,452 |
| Vote 3 - Planning and Development | 12,000 | - | 12,000 | - | - | 12,000 | - | - | (12,000) | (100.00)% | (100.00)% | - | - | - | 499,643 |
| Vote 5 - Community and Social Services | 295,000 | - | 295,000 | - | - | 295,000 | 133,979 | - | (161,021) | (54.58)% | (54.58)% | - | - | - | - |
| Vote 6 - Public Safety | 85,000 | - | 85,000 | - | - | 85,000 | - | - | (85,000) | (100.00)% | (100.00)% | - | - | - | 62,903 |
| Vote 7 - Sports and Recreation | 251,000 | - | 251,000 | - | - | 251,000 | - | - | (251,000) | (100.00)% | (100.00)% | - | - | - | 713,769 |
| Vote 8 - Road Transport | 14,716,000 | - | 14,716,000 | - | - | 14,716,000 | 13,832,615 | - | (883,385) | (6.00)% | (6.00)% | - | - | - | - |
| Vote 9 - Other | - | - | - | - | - | - | 44,770 | - | 44,770 | 100.00% | 100.00% | - | - | - | - |
| Vote 10 - Housing Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Vote 11 - Waste Management | 1,800,000 | - | 1,800,000 | - | - | 1,800,000 | - | - | (1,800,000) | (100.00)% | (100.00)% | - | - | - | - |
| Vote 12 - Waste Water Management | 3,180,000 | - | 3,180,000 | - | - | 3,180,000 | - | - | (3,180,000) | (100.00)% | (100.00)% | - | - | - | 15,401,315 |
| Vote 13 - Electricity | 1,300,000 | - | 1,300,000 | - | - | 1,300,000 | - | - | (1,300,000) | (100.00)% | (100.00)% | - | - | - | 1,681,260 |
| Vote 14 - Water | 17,110,000 | (16,690,000) | 420,000 | - | - | 420,000 | - | - | (420,000) | (100.00)% | (2.45)% | - | - | - | 2,313,622 |
| Total Capital Expenditure - Single-year | 40,589,000 | (16,690,000) | 23,899,000 | - | - | 23,899,000 | 14,194,318 | - | (9,704,682) | - | (23.91)% | - | - | - | 21,457,449 |
| Total Capital Expenditure - Vote | 40,589,000 | (16,690,000) | 23,899,000 | - | - | 23,899,000 | 14,194,318 | - | (9,704,682) | - | (23.91)% | - | - | - | 21,457,449 |
| CAPITAL EXPENDITURE - STANDARD | | | | | | | | | | | | | | | |
| Governance and Administration: | | | | | | | | | | | | | | | |
| Executive and Council | 153,000 | - | 153,000 | - | - | 153,000 | - | - | (153,000) | (100.00)% | (100.00)% | - | - | - | - |
| Budget and Treasury Office | 1,317,000 | - | 1,317,000 | - | - | 1,317,000 | - | - | (1,317,000) | (100.00)% | (100.00)% | - | - | - | - |
| Corporate Services | 370,000 | - | 370,000 | - | - | 370,000 | - | - | (370,000) | (100.00)% | (100.00)% | - | - | - | - |
| Community and Public Safety: | | | | | | | | | | | | | | | |
| Community and Social Services | 295,000 | - | 295,000 | - | - | 295,000 | - | - | (295,000) | (100.00)% | (100.00)% | - | - | - | - |
| Sport and Recreation | 251,000 | - | 251,000 | - | - | 251,000 | - | - | (251,000) | (100.00)% | (100.00)% | - | - | - | - |
| Public Safety | 85,000 | - | 85,000 | - | - | 85,000 | - | - | (85,000) | (100.00)% | (100.00)% | - | - | - | - |
| Economic and Environmental Services: | | | | | | | | | | | | | | | |
| Planning and Development | 12,000 | - | 12,000 | - | - | 12,000 | - | - | (12,000) | (100.00)% | (100.00)% | - | - | - | - |
| Road Transport | 14,716,000 | - | 14,716,000 | - | - | 14,716,000 | - | - | (14,716,000) | (100.00)% | (100.00)% | - | - | - | - |
| Trading Services: | | | | | | | | | | | | | | | |
| Electricity | 1,300,000 | - | 1,300,000 | - | - | 1,300,000 | - | - | (1,300,000) | (100.00)% | (100.00)% | - | - | - | - |
| Water | 17,110,000 | (16,690,000) | 420,000 | - | - | 420,000 | - | - | (420,000) | (100.00)% | (2.45)% | - | - | - | - |
| Waste Management | 4,980,000 | - | 4,980,000 | - | - | 4,980,000 | - | - | (4,980,000) | (100.00)% | (100.00)% | - | - | - | - |
| Other: | | | | | | | | | | | | | | | |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Capital Expenditure - Standard | 40,589,000 | (16,690,000) | 23,899,000 | - | - | 23,899,000 | - | - | (23,899,000) | - | (58.88)% | - | - | - | - |
| FUNDED BY: | | | | | | | (14,194,318) | | | | | | | | |
| National Government | 28,448,000 | (16,540,000) | 11,908,000 | - | - | 11,908,000 | - | - | (11,908,000) | (100.00)% | (41.86)% | - | - | - | - |
| Provincial Government | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Transfers and Grants | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Transfers Recognised - Capital | 28,448,000 | (16,540,000) | 11,908,000 | - | - | 11,908,000 | - | - | (11,908,000) | (100.00)% | (41.86)% | - | - | - | - |
| Internally Generated Funds | 6,141,000 | (150,000) | 5,991,000 | - | - | 5,991,000 | - | - | (5,991,000) | (100.00)% | (97.56)% | - | - | - | - |
| Borrowings | 6,000,000 | - | 6,000,000 | - | - | 6,000,000 | - | - | (6,000,000) | (100.00)% | (100.00)% | - | - | - | - |
| Total Capital Funding | 40,589,000 | (16,690,000) | 23,899,000 | - | - | 23,899,000 | - | - | (23,899,000) | - | (58.88)% | - | - | - | - |
| | | | | | | | (14,194,318) | | | | | | | | |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX E(5)

RECONCILIATION OF BUDGETED CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

| Description | 2015 | | | | | | | | 2014 |
|---|-----------------------------|-----------------------|--------------------------------|---------------------|---------------------|--------------------|---|--|---------------------|
| | Original Total Budget | Budget Adjustments | Final Adjustments Budget | Final Budget | Actual Outcome | Variance | Actual Outcome as % of Final Budget | Actual Outcome as % of Original Budget | Audited Outcome |
| | R | R | R | R | R | R | R | R | R |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | | | | | |
| Receipts | | | | | | | | | |
| Ratepayers and Other | 153,090,000 | (10,644,000) | - | 142,446,000 | 114,622,738 | (27,823,262) | (19.53)% | (18.17)% | 101,123,177 |
| Government - Operating | 39,633,000 | - | - | 39,633,000 | 50,908,667 | 11,275,667 | 28.45% | 28.45% | 53,829,613 |
| Government - Capital | 29,248,000 | (16,540,000) | - | 12,708,000 | - | (12,708,000) | (100.00)% | (43.45)% | - |
| Interest | 940,000 | - | - | 940,000 | 1,596,161 | 656,161 | 69.80% | 69.80% | 1,030,475 |
| Payments | | | | | | | | | |
| Suppliers and Employees | (163,870,000) | 493,000 | - | (163,377,000) | (151,521,528) | 11,855,472 | (7.26)% | (7.23)% | (141,716,686) |
| Finance Charges | (1,700,000) | (830,000) | - | (2,530,000) | (1,336,550) | 1,193,450 | (47.17)% | (70.20)% | (1,607,928) |
| Transfers and Grants | (13,669,000) | - | - | (13,669,000) | - | 13,669,000 | (100.00)% | (100.00)% | - |
| NET CASH FROM / (USED) OPERATING ACTIVITIES | 43,672,000 | (27,521,000) | - | 16,151,000 | 14,269,488 | (1,881,512) | 8835.05% | 3267.42% | 12,658,650 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | |
| Receipts | | | | | | | | | |
| Proceeds on Disposal of PPE | 120,000 | - | - | 120,000 | - | (120,000) | (100.00)% | (100.00)% | 989,704 |
| Decrease / (Increase) in Non-current Debtors | - | - | - | - | - | - | - | - | - |
| Decrease / (Increase) Other Non-current Receivables | - | - | - | - | (100) | (100) | (100.00)% | - | - |
| Decrease / (Increase) in Non-current Investments | - | - | - | - | - | - | - | - | - |
| Payments | | | | | | | | | |
| Capital Assets | (40,589,000) | 16,690,000 | - | (23,899,000) | (14,172,439) | 9,726,561 | (40.70)% | (23.96)% | (21,551,681) |
| NET CASH FROM / (USED) INVESTING ACTIVITIES | (40,469,000) | 16,690,000 | - | (23,779,000) | (14,172,539) | 9,606,461 | - | - | (20,561,977) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | | |
| Receipts | | | | | | | | | |
| Increase / (Decrease) in Short-term Loans | 6,135,000 | - | - | 6,135,000 | - | (6,135,000) | (100.00)% | (100.00)% | - |
| New Loans raised | - | - | - | - | - | - | - | - | - |
| Payments | | | | | | | | | |
| Loans repaid | (3,384,000) | - | - | (3,384,000) | (2,776,889) | 607,111 | (17.94)% | (17.94)% | (2,503,720) |
| NET CASH FROM / (USED) FINANCING ACTIVITIES | 2,751,000 | - | - | 2,751,000 | (2,776,889) | (5,527,889) | - | - | (2,503,720) |
| NET INCREASE / (DECREASE) IN CASH HELD | 5,953,000 | (10,831,000) | - | (4,878,000) | 1,515,497 | (3,362,503) | - | 2545.77% | 10,407,047 |
| Cash / Cash Equivalents at the Year begin: | (2,629,000) | 2,915,000 | - | 286,000 | 232,800 | (53,200) | (18.60)% | 2.02% | 10,639,847 |
| Cash / Cash Equivalents at the Year end: | 3,324,000 | (7,916,000) | - | (4,592,000) | (1,282,697) | 3,309,303 | (72.07)% | 99.56% | 232,800 |

EMTHANJENI LOCAL MUNICIPALITY

APPENDIX F

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grants and Subsidies Received

| Name of Grant | Name of Organ of State or Municipal Entity | Opening Balance | Total Receipts | Total Expenses | Net Grant | Reason for Delay / Withholding of Funds | Compliance to Revenue Act | Reason for Non-compliance |
|--|--|------------------|-------------------|-------------------|------------------|---|---------------------------|---------------------------|
| | | | Total | Total | Total | | Yes / No | |
| Equitable Share | Nat Treasury | - | 35,342,000 | 35,342,000 | - | - | Yes | N/a |
| Library Grant | Provincial | - | 757,000 | 757,000 | - | - | Yes | N/a |
| EPWP | Nat Treasury | - | 1,000,000 | 952,725 | 47,275 | - | Yes | N/a |
| MIG | Nat Treasury | 1,511,512 | 16,108,000 | 15,867,861 | 1,751,651 | - | Yes | N/a |
| FMG | Nat Treasury | - | 1,600,000 | 1,600,000 | - | - | Yes | N/a |
| MSIG | Nat Treasury | - | 934,000 | 934,000 | - | - | Yes | N/a |
| DWA | Provincial | 15,621 | 92,762 | 92,762 | 15,621 | - | Yes | N/a |
| Nonzwakazi Revitalisation | Provincial | 290,042 | - | 22,442 | 267,600 | - | Yes | N/a |
| Phandulwazi Upgrade | Provincial | 150,000 | - | - | 150,000 | - | Yes | N/a |
| Housing Accreditation | Provincial | - | 645,000 | 645,000 | - | - | Yes | N/a |
| Department of Health | Provincial | 3,599,559 | - | 3,599,559 | - | - | Yes | N/a |
| Department of Education | Provincial | 1,232,100 | - | - | 1,232,100 | - | Yes | N/a |
| Department of Roads | Provincial | - | - | - | - | - | Yes | N/a |
| Fire Equipment | Provincial | 39,188 | - | - | 39,188 | - | Yes | N/a |
| INEP | Nat Treasury | 257,245 | - | - | 257,245 | - | Yes | N/a |
| Total Grants and Subsidies Received | | 7,095,267 | 56,478,762 | 59,813,350 | 3,760,679 | | | |

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX G
STATEMENT OF REMUNERATION OF MANAGEMENT

30 June 2015

| Incumbent | Fees for Services | Basic Salaries | Bonuses | Allowances | Contributions to Funds | Other Short-term Benefits | Any Other Benefits | Total Remuneration |
|--|-------------------|------------------|----------------|------------------|------------------------|---------------------------|--------------------|--------------------|
| | R | R | R | R | R | R | R | R |
| Mayor Sthonga ST | - | 504,572 | - | 187,472 | 6,364 | - | - | 698,408 |
| Speaker Freddie MM | - | 335,274 | - | 154,151 | 70,774 | - | - | 560,199 |
| Councillors | | | | | | | | |
| Kivedo MC | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Jood J | - | 105,919 | - | 70,852 | 46,273 | - | - | 223,044 |
| Jonas VG | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Thomas NS | - | 151,372 | - | 70,852 | 1,982 | - | - | 224,206 |
| Du Plessis WJ | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Nyl GL | - | 176,387 | - | 89,589 | 32,499 | - | - | 298,474 |
| Nkumbi GL | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Witbooi WA | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Jaftha AF | - | 176,387 | - | 89,589 | 32,499 | - | - | 298,474 |
| Swanepoel B | - | 164,627 | - | 71,526 | 30,231 | - | - | 266,385 |
| Malherbe M | - | 128,281 | - | 70,852 | 23,664 | - | - | 222,797 |
| Rust HJ | - | 137,104 | - | 41,248 | 42,134 | - | - | 220,485 |
| Total for Councillors | - | 2,521,327 | - | 1,200,390 | 404,738 | - | - | 4,126,456 |
| Municipal Manager Visser I | - | 763,674 | 192,969 | 258,000 | 150,182 | - | 93,095 | 1,457,919 |
| Chief Financial Officer Manuel MF | - | 685,680 | 172,314 | 271,392 | 135,829 | - | 13,129 | 1,278,343 |
| Director: Community Services Diamane EV | - | 488,472 | 100,249 | 125,690 | 145,056 | - | 25,402 | 884,870 |
| Director: Corporate Services Jack MR | - | 546,768 | 88,000 | 161,952 | 108,327 | - | 68,440 | 973,486 |
| Director: Infrastructure and Technical Services | | | | | | | | |
| Owies MJV | - | 451,000 | 66,000 | 36,665 | 127,538 | - | - | 681,203 |
| Taljaard FD (Acting) | 39,414 | 352,710 | 28,873 | 86,460 | 70,062 | - | - | 577,518 |
| Total for Senior Managers | 39,414 | 3,288,304 | 648,404 | 940,159 | 736,992 | - | 200,065 | 5,853,339 |
| Total for Management | 39,414 | 5,809,631 | 648,404 | 2,140,549 | 1,141,731 | - | 200,065 | 9,979,795 |

30 June 2014

| Incumbent | Fees for Services | Basic Salaries | Bonuses | Allowances | Contributions to Funds | Other Short-term Benefits | Any Other Benefits | Total Remuneration |
|--|-------------------|------------------|----------------|------------------|------------------------|---------------------------|--------------------|--------------------|
| | R | R | R | R | R | R | R | R |
| Mayor Sthonga ST | - | 476,510 | - | 181,025 | 5,113 | - | - | 698,408 |
| Speaker Freddie MM | - | 322,325 | - | 152,087 | 66,814 | - | - | 560,199 |
| Councillors | | | | | | | | |
| Kivedo MC | - | 124,203 | - | 70,525 | 22,754 | - | - | 222,797 |
| Jood J | - | 107,285 | - | 70,436 | 40,330 | - | - | 223,044 |
| Jonas VG | - | 123,973 | - | 70,527 | 22,752 | - | - | 222,797 |
| Thomas NS | - | 145,341 | - | 70,527 | 1,627 | - | - | 224,206 |
| Du Plessis WJ | - | 123,973 | - | 70,530 | 22,741 | - | - | 222,797 |
| Nyl GL | - | 170,277 | - | 88,631 | 31,230 | - | - | 298,474 |
| Nkumbi GL | - | 123,973 | - | 70,444 | 22,740 | - | - | 222,797 |
| Witbooi WA | - | 123,973 | - | 70,527 | 22,741 | - | - | 222,797 |
| Jaftha AF | - | 170,277 | - | 88,631 | 31,229 | - | - | 298,474 |
| Swanepoel B | - | 158,957 | - | 80,835 | 29,127 | - | - | 266,385 |
| Malherbe M | - | 123,973 | - | 70,444 | 22,741 | - | - | 222,797 |
| Rust HJ | - | 143,784 | - | 40,245 | 33,146 | - | - | 220,485 |
| Total for Councillors | - | 2,438,823 | - | 1,195,412 | 375,086 | - | - | 4,126,456 |
| Municipal Manager Visser I | - | 741,444 | 147,037 | 247,008 | 138,842 | - | 87,070 | 1,457,919 |
| Chief Financial Officer Manuel MF | - | 642,000 | 151,471 | 262,708 | 125,911 | - | 12,111 | 1,278,343 |
| Director: Community Services Diamane EV | - | 457,414 | 72,950 | 128,090 | 135,015 | - | 18,973 | 884,870 |
| Director: Corporate Services Jack MR | - | 512,000 | - | 155,520 | 99,634 | 15,018 | 63,983 | 973,486 |
| Director: Infrastructure and Technical Services | | | | | | | | |
| Makaleni DV | - | 409,500 | 34,125 | 119,462 | 81,764 | 30,576 | - | 681,203 |
| Taljaard FD (Acting) | - | 112,325 | 69,011 | 20,894 | 20,528 | - | - | 577,518 |
| Total for Senior Managers | - | 2,874,683 | 474,594 | 933,682 | 601,695 | 45,594 | 182,138 | 5,853,339 |
| Total for Management | - | 5,313,506 | 474,594 | 2,129,094 | 976,782 | 45,594 | 182,138 | 9,979,795 |

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX H
RATIO ANALYSIS SCHEDULE FOR THE YEAR ENDED 30 JUNE 2015

| Ratio | | Norm / Range | Input Description | Data Inputs and Results | | Management Comments (#) |
|-----------------------------------|--|--------------|--|-------------------------|-------------|--|
| | | | | 2015 | 2014 | |
| 1. FINANCIAL POSITION | | | | | | |
| A. Asset Management / Utilisation | | | | | | |
| 1. | Capital Expenditure to Total Expenditure | 10% - 20% | | 5.29% | 7.63% | The Municipality planned to finance some of its capital needs through a loan. This loan was however not obtained during the year. |
| | | | Total Operating Expenditure | 254,283,847 | 259,896,161 | |
| | | | Taxation Expense | - | - | |
| | | | Total Capital Expenditure | 14,194,318 | 21,457,449 | |
| 2. | Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value) | 0% | | 0.01% | 0.01% | The Impairment figure reported is immaterial and is the result of assets being damaged during the normal course of business. |
| | | | PPE, Investment Property & Intangible Impairment | 84,818 | 52,915 | |
| | | | PPE at Carrying Value | 875,317,692 | 923,981,907 | |
| | | | IP at Carrying Value | 5,004,000 | 5,004,000 | |
| | | | Intangible Assets at Carrying Value | 235,393 | 383,791 | |
| 3. | Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value) | 8% | | 1.27% | 1.25% | As a number of Infrastructure Assets are new, the required maintenance on these items are not yet as high as it will be later in their useful lives. |
| | | | Total Repairs and Maintenance Expenditure | 11,214,814 | 11,610,873 | |
| | | | PPE at Carrying Value | 875,317,692 | 923,981,907 | |
| | | | Investment Property at Carrying Value | 5,004,000 | 5,004,000 | |
| B. Debtors Management | | | | | | |
| 1. | Collection Rate | 95% | | 82.27% | 110.74% | Management is attempting to increase the recoverability rate and a service provider has been appointed to assist the Municipality with this. |
| | | | Gross Debtors Closing Balance | 110,684,017 | 89,325,735 | |
| | | | Gross Debtors Opening Balance | 89,325,735 | 101,513,592 | |
| | | | Bad Debts Written-off | - | - | |
| | | | Billed Revenue | 120,461,979 | 113,465,561 | |
| 2. | Bad Debts Written-off as % of Provision for Bad Debt | 100% | | 0.00% | 0.00% | |
| | | | Consumer Debtors Bad Debts Written-off | - | - | |
| | | | Consumer Debtors Current Bad Debt Provision | 72,351,010 | 52,388,149 | |
| 3. | Net Debtors Days | 30 Days | | 116 Days | 119 Days | Management is attempting to increase the recoverability rate and a service provider has been appointed to assist the Municipality with this. |
| | | | Gross Debtors | 110,684,017 | 89,325,735 | |
| | | | Bad Debts Provision | 72,351,010 | 52,388,149 | |
| | | | Billed Revenue | 120,461,979 | 113,465,561 | |
| C. Liquidity Management | | | | | | |
| 1. | Cash / Cost Coverage Ratio (Excluding Unspent Conditional Grants) | 1 - 3 Months | | 0 Months | 0 Months | As required by the MFMA, management is committed to pay outstanding debt within the 30 day legislative deadline. |
| | | | Cash and Cash Equivalents | 12,281,744 | 12,210,203 | |
| | | | Unspent Conditional Grants | 3,760,679 | 7,095,267 | |
| | | | Overdraft | 13,564,441 | 11,977,403 | |
| | | | Short-term Investments | - | - | |
| | | | Total Annual Operational Expenditure | 254,283,847 | 259,896,161 | |
| 2. | Current Ratio | 1.5 - 2:1 | | 2.94 | 2.78 | |
| | | | Current Assets | 129,110,136 | 120,055,670 | |
| | | | Current Liabilities | 43,909,457 | 43,139,203 | |
| C. Liability Management | | | | | | |
| 1. | Capital Cost (Interest Paid and Redemption) as a % of Total Operating Expenditure | 6% - 8% | | 1.62% | 1.58% | |
| | | | Interest Paid | 1,336,550 | 1,607,928 | |
| | | | Redemption | 2,776,889 | 2,503,720 | |
| | | | Total Operating Expenditure | 254,283,847 | 259,896,161 | |
| | | | Taxation Expense | - | - | |
| 2. | Debt (Total Borrowings) / Revenue | 45% | | 1.88% | 3.87% | |
| | | | Total Debt | 3,212,014 | 5,988,903 | |
| | | | Total Operating Revenue | 210,813,156 | 193,688,171 | |
| | | | Operational Conditional Grants | 39,770,004 | 39,023,543 | |
| C. Sustainability | | | | | | |
| 1. | Level of Cash Backed Reserves (Net Assets - Accumulated Surplus) | 100% | | 100.00% | 100.00% | |
| | | | Cash and Cash Equivalents | 12,281,744 | 12,210,203 | |
| | | | Bank Overdraft | 13,564,441 | 11,977,403 | |
| | | | Unspent Grants | 3,760,679 | 7,095,267 | |
| | | | Net Assets | 916,891,138 | 960,361,829 | |
| | | | Accumulated Surplus | 916,891,138 | 960,361,829 | |

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX H
RATIO ANALYSIS SCHEDULE FOR THE YEAR ENDED 30 JUNE 2015

| Ratio | | Norm / Range | Input Description | Data Inputs and Results | | Management Comments (#) |
|----------------------------------|--|--------------|--|-------------------------|--------------|---|
| | | | | 2015 | 2014 | |
| 2. FINANCIAL PERFORMANCE | | | | | | |
| A. Efficiency | | | | | | |
| 1. | Net Operating Surplus Margin | = or > 0% | Total Operating Revenue | -21.19% | -34.30% | The Municipality cannot quantify the Depreciation portion due to the implementation of GRAP, but the result is due to this. |
| | | | Depreciation - Revalued Portion | 209,829,981 | 193,516,971 | |
| | | | Total Operating Expenditure | - | - | |
| | | | Taxation Expense | 254,283,847 | 259,896,161 | |
| 2. | Net Surplus / Deficit Electricity | 0% - 15% | Total Electricity Revenue | -20.89% | -36.26% | Due to the slow recovery of Consumer Debtors and the fact that they cannot financially meet their responsibilities, a large portion of the outstanding debt has been provided for. |
| | | | Total Electricity Expenditure | 67,029,700 | 60,589,837 | |
| 3. | Net Surplus / Deficit Water | = or > 0% | Total Water Revenue | -10.24% | -27.76% | Due to the slow recovery of Consumer Debtors and the fact that they cannot financially meet their responsibilities, a large portion of the outstanding debt has been provided for. |
| | | | Total Water Expenditure | 27,325,462 | 25,603,450 | |
| 4. | Net Surplus / Deficit Refuse | = or > 0% | Total Waste Management | 31.09% | 97.06% | |
| | | | Total Waste Management | 43,653,254 | (29,854,516) | |
| | | | Total Waste Management | 30,080,081 | (876,882) | |
| B. Distribution Losses | | | | | | |
| 1. | Electricity Distribution Losses (Percentage) | 7% - 10% | Number of Units Purchased and/or Generated | 19.79% | 21.03% | The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported. |
| | | | Number of Units Sold | 56,817,394 | 57,021,523 | |
| 2. | Water Distribution Losses (Percentage) | 15% - 30% | Number of Kilolitres Purchased and/or Purified | 17.16% | 31.34% | The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported. |
| | | | Number of Kilolitres Sold | 45,571,588 | 45,031,190 | |
| | | | | 2,165,233 | 2,078,624 | |
| | | | | 1,793,691 | 1,427,080 | |
| C. Revenue Management | | | | | | |
| 1. | Growth in Number of Active Consumer Accounts | None | Number of Active Debtors Accounts (Previous) | -13.32% | -19.05% | |
| | | | Number of Active Debtors Accounts (Current) | 32,154 | 39,721 | |
| 2. | Revenue Growth (%) | = CPI | CPI | 8.84% | 66.31% | |
| | | | Total Revenue (Previous) | 6.60% | 5.50% | |
| | | | Total Revenue (Current) | 193,688,171 | 116,463,138 | |
| 3. | Revenue Growth (%) - Excluding Capital Grants | = CPI | CPI | 12.93% | 49.28% | |
| | | | Total Revenue, excluding Capital Grants (Previous) | 6.60% | 5.50% | |
| | | | Total Revenue, excluding Capital Grants (Current) | 173,858,108 | 116,463,138 | |
| | | | | 196,339,905 | 173,858,108 | |
| D. Expenditure Management | | | | | | |
| 1. | Creditors Payment Period (Trade Creditors) | 30 Days | Trade Creditors | 8 Days | 5 Days | |
| | | | Contracted Services | 1,816,880 | 1,015,073 | |
| | | | Repairs and Maintenance | 7,767,413 | 7,227,685 | |
| | | | General Expenses | 11,214,814 | 11,610,873 | |
| | | | Bulk Purchases | 21,597,900 | 19,672,718 | |
| | | | Capital Credit Purchases | 47,048,655 | 43,535,580 | |
| 2. | Irregular, Fruitless & Wasteful and Unauthorised Expenditure / Total Operating Expenditure | 0% | Irregular, Fruitless & Wasteful and Unauthorised Expenditure | 30.98% | 41.92% | The costs is due to non-cash items, such as depreciation and impairment losses being recognised, which was not fully budgeted for. |
| | | | Total Operating Expenditure | 78,771,971 | 108,949,480 | |
| | | | Taxation Expense | 254,283,847 | 259,896,161 | |
| 3. | Remuneration as % of Total Operating Expenditure | 25% - 40% | Employee / Personnel Related Cost | 27.92% | 24.64% | |
| | | | Councillors Remuneration | 66,864,269 | 59,893,633 | |
| | | | Total Operating Expenditure | 4,126,459 | 4,157,184 | |
| | | | Taxation Expense | 254,283,847 | 259,896,161 | |
| 4. | Contracted Services % of Total Operating Expenditure | 2% - 5% | Contracted Services | 3.05% | 2.78% | |
| | | | Total Operating Expenditure | 7,767,413 | 7,227,685 | |
| | | | Taxation Expense | 254,283,847 | 259,896,161 | |

EMTHANJENI LOCAL MUNICIPALITY
APPENDIX H
RATIO ANALYSIS SCHEDULE FOR THE YEAR ENDED 30 JUNE 2015

| Ratio | | Norm / Range | Input Description | Data Inputs and Results | | Management Comments (#) |
|----------------------------|--|--------------|---|-------------------------|--------------|---|
| | | | | 2015 | 2014 | |
| E. Grant Dependency | | | | | | |
| 1. | (Own funded Capital Expenditure (Internally Generated Funds) + Borrowings) to Total Capital Expenditure | None | | 2.55% | 9.61% | |
| | | | Internally Generated Funds | 361,703 | 2,061,253 | |
| | | | Borrowings | - | - | |
| | | | Total Capital Expenditure | 14,194,318 | 21,457,449 | |
| | | | | | | |
| 2. | Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure | None | | 2.55% | 9.61% | |
| | | | Internally Generated Funds | 361,703 | 2,061,253 | |
| | | | Total Capital Expenditure | 14,194,318 | 21,457,449 | |
| | | | | | | |
| 3. | Own Source Revenue to Total Operating Revenue (Including Agency Revenue) | None | | 79.74% | 77.55% | |
| | | | Total Revenue | 210,813,156 | 193,688,171 | |
| | | | Government Grant and Subsidies | 54,243,255 | 58,853,606 | |
| | | | Public Contributions and Donations | - | - | |
| | | | Capital Grants | 14,473,251 | 19,830,063 | |
| | | | | | | |
| 3. BUDGET IMPLEMENTATION | | | | | | |
| A. Efficiency | | | | | | |
| 1. | Capital Expenditure Budget Implementation Indicator | 95% - 100% | | 59.39% | 102.99% | The Municipality planned to finance some of its capital needs through a loan. This loan was however not obtained during the year. |
| | | | Actual Capital Expenditure | 14,194,318 | 21,457,449 | |
| | | | Budgeted Capital Expenditure | 23,899,000 | 20,834,000 | |
| | | | | | | |
| 2. | Operating Expenditure Budget Implementation Indicator | 95% - 100% | | 125.88% | 135.22% | The unfavourable ratio is due to non-cash items, such as depreciation and impairment losses being recognised, which was not fully budgeted for. |
| | | | Actual Operating Expenditure | 254,283,847 | 259,896,161 | |
| | | | Budgeted Operating Expenditure | 202,004,000 | 192,205,697 | |
| | | | | | | |
| 3. | Operating Revenue Budget Implementation Indicator | 95% - 100% | | 103.57% | 106.23% | Due to Fines being recorded in full when issued, as required by GRAP 23. |
| | | | Actual Operating Revenue | 209,829,981 | 193,516,971 | |
| | | | Budgeted Operating Revenue | 202,601,000 | 182,169,422 | |
| | | | | | | |
| 4. | Service Charges and Property Rates Revenue Budget Implementation Indicator | 95% - 100% | | 99.58% | -632.06% | |
| | | | Actual Service Charges and Property Rates Revenue | 119,645,875 | (66,207,989) | |
| | | | Budgeted Service Charges and Property Rates Revenue | 120,149,000 | 10,475,000 | |
| | | | | | | |
| Interpretation of Results: | | | | | | |
| | The green colour indicates that the result is within the norm and is acceptable. | | | | | |
| | The red colour indicates that the result is not acceptable and corrective actions/plans should be put in place to improve the results. | | | | | |
| | Data should be captured in the blue coloured cell to calculate a ratio. | | | | | |
| # | In situations where the results are not within the acceptable norm, corrective actions/plans should be taken and referenced. | | | | | |